THE ROLE OF THE FINANCIAL INSTITUTIONS IN ENRON'S COLLAPSE—VOLUME 2

HEARINGS

BEFORE THE

PERMANENT SUBCOMMITTEE OF INVESTIGATIONS

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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 c. LJM Approval Sheet, February 8, 2000, Deal Name: Yosemite d. Enron Corp. Interoffice Memorandum, February 23, 2000, re: LJM2 Investment in Certificates of Beneficial Interest in Yosemite Securities 	1635
c. LJM Approval Sheet, February 8, 2000, Deal Name: Yosemite d. Enron Corp. Interoffice Memorandum, February 23, 2000, re: LJM2 Investment in Certificates of Beneficial Interest in Yosemite Securities Trust I e. Enron Global Finance email, February 2000, re: calculation (Yosemite	16351638
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c. LJM Approval Sheet, February 8, 2000, Deal Name: Yosemite d. Enron Corp. Interoffice Memorandum, February 23, 2000, re: LJM2 Investment in Certificates of Beneficial Interest in Yosemite Securities Trust I e. Enron Global Finance email, February 2000, re: calculation (Yosemite	16351638

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 h. Enron Corp. letter to LJM2 Co-Investment, L.P., Attn: Andrew S. Fastow, March 8, 2000, (Enron agrees to pay LMJ2 \$100,000.) i. General Partner, LJM2 Co-Investment, L.P. draft letter to Limited Partners, describing LJM2 purchase and sale of Yosemite Trust Cer- 	1645
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g. Citigroup, Project 10, Due Diligence Findings [Enron], November 7,	1704
h. Letters between Citigroup and the Permanent Subcommittee on Investigations, July 2002, regarding prepay transactions between Citigroup and Enron Corp.; names of Citigroup's clients or counterparties, in addition to Enron, that engaged in prepaid forward transactions with a special purpose vehicle ("SPV"); Citigroup's rela-	1706
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	k. Enron Corp. Memorandum, June 30, 1999, re: Federal Income Tax Treatment of Prepayments	1961
	l. Enron Corp. (Tax Planning Department) Interoffice Memorandum.	
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	randum, April 2001, re: Enron Credit Linked Notes Due 2005 n. Enron Corp. (Global Finance Tax Department) Interoffice Memorandum, November 2001, re: \$750 Million Yosemite Debt—Recourse	1976
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227.	a. Merrill Lynch LJM2 Investment Summary (Ebarge LLC), June 2000 b. Enron Risk Assessment And Control Deal Approval Sheet on Nigeria	2177
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237.	to new business.) Merrill Lynch email, July 2001, re: LJM2/Enron (we took a substantial P/L hit for selling Zephyrus, not something we want to repeat.	2203
238.	Merrill Lynch email, December 2001, re: Structured loan transactions (a snapshot of the structured loans in the portfolio are as follows.	2204
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253	Merrill Lynch L-IM3 Appropriation Request	2337

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Capital Call (\$140K Commit) (YOU MUST BE JOKING)	2342
256. Merrill Lynch Interoffice Memorandum, December 1998, re: Enron Corp. Loan Commitment (The loan commitment is required by Enron's account-	0044
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worried about debt on the balance sheet, as they can structure around it.)	2346
258. Merrill Lynch email, May 2000, re: Enron Net Works (Off Balance sheet debt—Not a primary driver because Enron believes they can structure	
anything to be off balance sheet.)	2348
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260. a. Merrill Lynch email, December 1999, re: New Account Opening (Dela-	2350
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261. List of Merrill Lynch employees investing in LJM2	2352
262. Enron Corp. draft letter/edits on Enron Nigeria Barge Ltd. sale	2354
263. Bargeco Encomics, LJM2 document	2359
264. Enron Risk Assessment and Control Deal Approval Sheet, Nigeria Barges	
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268. Merrill Lynch letter to the Permanent Subcommittee on Investigations, April 2002, regarding Merrill Lynch Transactions with Enron-Related	
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THE ROLE OF THE FINANCIAL INSTITUTIONS IN ENRON'S COLLAPSE—VOLUME 2

Exhibits (continued from Volume 1)



Facsimile Cover Sheet

Steve Baillie 654-284 To: Joe Mackiewicz

Company: Citicorp Phone: 212-559-7497

ALAW RAFTE 221-1212 Fax: 212-758-6272

TRUA CHA DIER 28-2341

From: Joe Deffner Company: Enron Phone: 713-853-7117

Fax: 713-646-3602

Date: 12/10/98 Pages including this cover page:

MARKET PRO

Comments: Prepay structure.

- Erron (through a wholly owned subsidiery, ENGMC) enters into a five year forward sale contract for the delivery of a fixed volume of natural gas to an SPV (Vega?). Vega because SNGMC SSOOmm for the future supply. Vega borrows SNGMC SSOOmm from a lender (CXCT). That loan is secured by the supply contract. Vega takes physical delivery of the commodity.

 ENGMC's obligation is supported by an Erron Corp. performence quarantly. ENGMC's obligation is supported by an Erron Corp. performence quarantly. To eliminate the single obligor fatk, Erron provides a syndicate of surveites (4-5, rated A or better) to wrap the delivery obligation, if ENGMC fails to deliver, Vega has a claim under the Erron Corp. Guerantly. If the Guerantly is not honored, Vega could proceed to collect from the surreles.

 ECT or another entity (CSBank?) acts as marketing agent for Vega resaling the physical commodity has the market at Index.

 Vega enters into a financial awap with a non-Enron entity (CSBank?) where Vega pays Index and receives Fload.

DEC 18 '98 18:89

TOTAL P. BL PAGE. BL

Permanent Subcommittee on Investigations EXHIBIT #188a

From:

<adam.kulick@citicorp.com>
<viillam.sullivan@citicorp.com>
12/17/98 7:46am
Re: CALL REPORT - PROJECT ROOSEVELT (ENRON)

To: Date:

Subject:

Steve/Bill,

the bank is able to take physical delievery of commodities on international transactions in CITC. as our SPV's are domiciled in Cayman islands, this may count...

_ Reply Separator

Subject: Re: CALL REPORT - PROJECT ROOSEVELT (ENRON)
Author: Bill Sullivan at 12USNYC/o=AF1/c=US/a=MCI/p=CITICORP
Date: 12/16/1998 11:57 AM

Steve- Generally, the Bank cannot deal in physical commodities.

Regards, Bill.

Reply Separator

Subject: CALL REPORT - PROJECT ROOSEVELT (ENROW)
Author: Steve Baillie at 22EXTNL/0-AFI/C-US/A-MCI/P-CITICORP
Date: 12/15/1998 7:48 PM

CALLING ON: Joe Definer Grant Zimmerman

CALLING OFFICERS: Steve Baillie Dave Gorte

DATE: December 15, 1998

PURPOSE: Met with Enron to clarify some details on the Roosevelt deal.

RESULTS -

Maturity: Enron is leaning towards a shorter deal (2 years) rather than the original 5 years. This probably is due their preference to ultimately replace this financing with a Powerhell-like structure. A shorter term deal is better from a credit approval perspective.

Sureries: Thusfar Enron has 4 insurance companies lined up for \$125MM each.

Similar are needed, and Travelers cannot be one (this has been communicated to Enron). The mechanics are as earlier understood - the sureties make a payment of the lesser of (1) the PV of future gas deliveries times the then gas price, and (2) SSOOMM. Hence in a scenario where the price of gas falls, liquidity banks/CXC will recover less than it is owed from the sureties. The remainder will be recovered from the swap CP's (who swaps should be in the money in an amount equal to the difference between \$500MM and the amount received from the sureties). In a scenario where the price of gas has risen, the liquidity banks/CXC should be repaid in full from proceeds from the surety. The swap CP's will look to the margin account (and Enron for the threshold amount). definitions for the surety are contained in the Forward Sale Agreement.

Permanent Subcommittee on Investigations

EXHIBIT #188b

1463

Rémarketing Agreement: This is an agreement with Enron to act as our agent to re-sell the gas it has just sold to belta. Enron is okay with this concept, but has not used this mechanic in its previous prepaids, and is anxious to see a draft from Bracevell. In its deals with Chase it sells the gas to the SPV, the SPV sells to Chase, and Chase sells to Enron.

Q - can Citibank deal in physical commodities?

Swaps/Margin Agreements: Barclays possible CP. If Barclays cannot cake entire

swap, Natwest is a possible CP. Enron will probably not back-to-back the interest rate swap (not yet decided), but will back-to-back the commodity

swap.

Enron will provide a margin agreement on the back-to-back swap with the commodity swap provider (falls under the company's master ISDA with Enron?). This should have the effect of reducing the Enron risk inherent in the swap. Threshold levels in margin agreement will likely be whatever that CP has already agreed to with Enron (5-25MH). L/C's will be posted as margin. Kulick/Reilly/Baillie/Gorte to discuss this issue. Also Joe Deffer communicated that they would prefer if Bracewell prepared the swap document between Delta and the swap CP since Enron was not a party to this leg.

Note - Ose Deffner provided 'heads up' that likely question from CP is to ensure that Delta is required to pass on Index price of gas onto swap CP (i.e it has no discretion).

Intercreditor Issues: Enron okay with the concept that liquidity banks look to surety, and swap CP look to margin acct/Enron.

POLICH-UP

- FOLLOW-UP:

 Sheryl Gussett to call Bill Sullivan

 Sheryl Gussett to provide copy of a remktg agreement (timing Wed morning at earliest). Pass on to Enron.

 Dave Gorte/Joe Mackiewicz to develop pricing/fee proposal.

 Steve Baillie to confirm how remktg worked in old Delta deal.

 Joe Deffner to follow-up with L/C providers will be (under margin agreement).

- Joe Definer to confirm daily margining (should be same as old Delta
- to check).
- SB to check).

 Baillie to determine threshold under Citibank's present ISDA with Enron

 Bracewell to provide rough draft of documents to Citibank Wednesday.

 Baillie/Randolph/Reilly to develop credit memo.

 Bracewell to prepare swap doc. between Delta and swap CP.

OUESTIONS:

. CC:

- CXC spread varsus CP index, and implication on interest rate swap.
 if amount gas delivered assumes the drawn spread pricing from liquidity
- banks (i.e. a highest possible funding cost scenario) and acqually funding cost is lower, how is the "excess" passed back to Enron?
 - <steve.bailliesciticorp.com>, <william.foxeciticor...</pre>

From: From.
To:
Date:
Subject:

<joseph.mackiewicz@citicorp.com>
<adam.kulick@citicorp.com>
12/11/98 8:33am
Re: CALL REPORT - PROJECT ROQSEVELT (ENRON)

Regarding the Bankruptcy Remote Special Purpose Company (SPC) which will be the focal point of this deal:

- 1. Susan Johnson (Securitization's Staff Attorney) and I met with Bill Sulluvan (Derivatives Staff Attorney) yesterday to discuss the possible use of Delta or Vega as the SPC. Bill agreed to research and revert to the group today. Whatever entity we use, it will have to be:
- a. Bankruptcy remote from Enron (they've said they cannot own any of the equity) ${}^{\prime}$
- b. Not owned by Citicorp or any of its subsidiaries (understand both Delta and Vega are third party owned and incorporated in the Caymans).
- c. Clean -- no liabilities from previous transactions of any kind.
- Assuming the SPC meets the above requirements and CNAI (as agent)
 has the right to replace Enron as marketing agent, I don't see any
 problem with the SPC taking title to natural gas and immediately
 reselling it (thru an agent) to the market.

Susan/Bill would you not agree?

(Unless the guidelines for CITC have changed, I think it still remains a creature of the Export Trading Company Act and, therefore, is required to focus mainly on exports from the US. I doubt the domestic natural deliveries herein would qualify so trying to 'shoehorn' this deal into CITC is probably not the right answer.)

Today's To Do List

- 1. Approvals:
- a. Confirm that Global Insurance will approve exposures on the five monolines. (Bill ${\bf F}$)
- b. Confirm that FI will approve PSR exposures on the swap bank(s). (Joe M/Jim Reilly)
- c. Determine the level of Enron exposure in the deal and how to portray it on the Enron CA. (Bill $F/Jim\ Reilly$)
- 2. Legal:
- a. Determine whether the SPC will be Delta, Vega or Newco. (Bill Sullivan/Susan Johnson) $% \left(\frac{1}{2}\right) =\frac{1}{2}\left(\frac{1}{2}\right) \left(\frac{1}{$
- b. Determine whether Bracewell can be approved to prepare the Conduit dox. (Susan Johnson)
- c. Obtain opinion from Debevois & Plimpton regarding the form of surety bond; is it a 'hell-or-high-water' obligation and how does it differ from a commercial bank direct pay letter of credit. (Joe M)
 - d. Prepare dox and circulate for review ASAP. (V&E, Bracewell)

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- Analytics/Credit Approval Memo:
- a. Model the commodity/interest Kate swaps versus the surety bond payments under various gas price scenarios. (Steve Baillie/Adam Kulick)
- b. Determine whether the deal will amortize over 2 or 1 years. (Steve Baillie) $% \left(\frac{1}{2}\right) =\frac{1}{2}\left(\frac{1}{2}\right) ^{2}$
- c. Draft transaction mechanics for insertion into Securitization's credit memo. (Stave Baillie/Dave Gorte/Adam Kulick)
 - d. Prepare credit memo and CA. (Securitization)
- 4. Syndication:

a. Commit to sell-down the 364-day (renewable) bank liquidity backstop from \$500004 (at closing) to \$250000 within (37) months. Timing to be impacted by discussions with Global Insurance. (Dave G)

I've probably missed a few points but I think these are today's key issues. Regards, Joe $\,$

Reply Separator

Subject: Re: CALL REPORT - PROJECT ROOSEVELT (ENRON) Author: Adam Kulick at 040SNYC Date: 12/17/98 7:46 AM

Steve/Bill,

the bank is able to take physical delievery of commodities on international transactions in CITC. as our SPV's are domiciled in Cayman islands, this may count...

____ Reply Separator

Subject: Rs: CALL REPORT - PROJECT ROOSEVELT (ENROW)
Author: Bill Sullivan at 120SNYC/o-API/c-US/a-MCI/p-CITICORP
Date: 12/16/1998 11:57 AM

Stave- Generally, the Bank cannot deal in physical commodities.

Regards, Bill.

___ Reply Separator

Subject: CALL REPORT - PROJECT ROOSEVELT (ENRON)
Author: Steve Baille at 22EXTNL/0-AFI/C-US/A-MCI/P-CITICORP
Date: 12/15/1998 7:48 PM

CALLING ON: Joe Deffner Grant Zimmerman

CONFIDENTIAL

Enron Corporation Company Risk Rating: 4+ Portfolio Risk Rating:

December 21, 1998

liquidity facility to backstop commercial gas and crude oil, at a fixed and constant pr gas and crude oil, at a fixed and constant or the Seller under the Forward Sale Agreemer. December 1998 has been used as the purchaser for other C agree to market the natural gas and crude : Companies will backstop the Seller's delir through a commodity swap with [Natwest hedged through an interest rate swap with subsidiary of Enron Corp.

The purpose of this memorandum is to recommend approval for a \$125 million hold position in a 364-day Transaction") involving a \$500 million 3-ye rate loan (the "Loan") to Delta Energy Corpi
Agreement described in section III below. Dr Memorandum & (Enran) (hoosevelt)

ANTON YOU

П. The Company

Enron is currently rated BBB+/BBB+/Baa2 by S&P, Fitch and Moody's, respectively, and maintains an equity market capitalization of \$18.7B (as of December 22, 1998). S&P affirmed its BBB+ rating of Enron on November 3, 1998. The company maintains a Citibank Obligof risk rating of 4+. Current ratings consider (i) the company's aggressive growth strategy during 1998, which has adversely affected its leverage and cash flow measures, and (ii) a one-year repayment strategy that calls for a combination of funding at subsidiary levels on a non-recourse basis to the parent, Enron Corp, and the monetization of certain existing asset positions. Monetization proceeds are earmarked for debt repayment.

Enron looked to Citibank to lead/arrange two critical pieces of the refinancing/monetization strategy outlined to the ratings agencies. Initially, the two transactions contemplated were: (i) Rawhide, a \$750MM portfolio monetization of Enron equity investments; and (ii) Powerball, a \$750MM monetization of 1,400 Enron power and gas contracts (i.e. purchase, sale, and financial contracts). Rawhide successfully closed on Saturday, December 19, grossing Citibank in excess of \$14MM in first twelve-month revenue. In early December, Enron decided to postpone Powerball until 1999, ultimately leaving a \$750MM "hole" in their YE financing plans. In its absence, Enron now hopes to complete this Transaction (i.e. Roosevelt) with

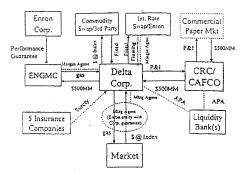
III. Transaction Summary

The Transaction is a three year, \$500MM prepaid natural gas and crude oil sale which will amortize in monthly principal payments, varying between approximately \$10.1 and \$12.6 MM. In exchange for an upfront payment of \$500MM (the "Purchase Price") on closing, the Seller (an Earon subsidiary whose obligations will be guaranteed by Enron Corporation) will agree to deliver a fixed amount of natural gas and crude oil at specific times and locations (all domestic) each month for a period of three years. The present value of the expected proceeds from the re-sale of such oil and gas will be equal to \$500 MM. The discount rate and future oil and gas prices used to determine the present value will be locked in through the Interest Rate Swap and Commodity Swaps described below. The Transaction will allocate \$300 MM for the purchase of natural gas and \$200 for the purchase of crude oil.

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CITI-SPSI 0021362

Permanent Subcommittee on Investigations EXHIBIT #188c



The key parties to the transaction are identified, and the key documents are summarized on the next page.

Enron will agree to act as Delta's agent and resell the gas. The commodity price risk will be eliminated through a swap (the "Commodity Swap") between Delta and an acceptable financial counterparty. The interest rate risk will be eliminated through a swap (the "Interest Rate Swap") between Delta and Enron. There will be a Margin Agreement between the Seller (again guaranteed by Enron Corporation) and Delta, and this Margin Agreement will be assigned to the Commodity Swap counterparty, which will mitigate such counterparty's exposure to a failure by Enron to deliver oil or gas at a time when the related index price owed to such counterparty is higher than the fixed price that would be paid by the surety. This is because the Margin Agreement will require Enron to post collateral in the form of each or LOC to the extent that the Commodity Swap has a negative "cash out" value to Delta. [Enron will post margin for the Interest Rate Swap.]

A key credit mitigant in the transaction is the support provided by five insurance companies (rated "A" or higher) on behalf of Enron. These "Surery Companies" will severally provide surery bonds for up to \$100MM each in the event that the gas is not delivered by Enron. Should the Guarantor (Enron) fail to deliver gas or crude or fail to pay the Replacement Value under the Forward Sale Agreement, the Surery Companies will be obligated to pay to Delta the lesser of the present value of the remaining undelivered gas and oil, at the lower of the fixed or then prevailing index price. As this transaction is structured, this will shift the bulk of the delivery risk from Enron to the Surery Companies. The liquidity bank(s) (i.e. Citibank and future assignees) will have a priority claim against the surery bonds, and the Commodity Swap counterparty will have a priority claim to the posted margin collateral under the Margin Agreement. The proceeds from the sale of these periodic deliveries of gas and crude, at an index price, combined may settlement payments under the Commodity Swap and the Interest Rate Swap, will provide Delta with funds matching those required to repay the loan from [CRC/CAFCO].

Funding will be provided through [CRC/CAFCO] securitization conduits, which in turn will raise funds in the commercial paper market. Citibank will provide the 364 day, \$500MM liquidity backstop facility to [CRC/CAFCO].

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Summary of Key Pa	nies ,
Seller under Forward	Enron Natural Gas Marketing Corporation ("ENGMC"), and/or another wholly-owned subsidiary of
Sale Agreement:	Enron Corporation. ENGMC will also enter into a Margin Agreement under which it will post collateral
Pale Whiteenterin	equal to its estimated future obligation to make payments to the Commodity Swap provider under the
	Commodity Swap.
Purchaser under the	Delta Energy Corporation, a Cayman Islands Corporation, Delta is a special purpose corporation used as
Forward Sale	the purchaser in other Citibank-arranged prepaid commodity transactions. Delta will also be a party to the
	Commodity Margin Agreement that will be assigned to the Commodity Swap counterparty.
Agreement:	EVEN AND AND AND AND AND AND AND AND AND AN
Guarantor:	Enron Corporation will guarantee ENGMC's obligations under the Forward Sale Agreement and the Commodity Margin Agreement. Guarantor will also guarantee the obligations of Enron Capital & Trade Resources Corp., a wholly owned subsidiary of Enron Corp., the Marketer under the Marketing Agreement and the Interest Rate Swap occurrerparty.
Surety Companies:	Surety Company AM Best Rating
y ;	St. Paul Fire & Marine Insurance Company A+
	Fireman's Fund Insurance Company
	Continental Casualty Company & National Fire Ins. Co. of Hartford
	Safeto Insurance Company of America A+
-	[Cigna or Reliance Insurance Group]
Marketer under	Enron Capital & Trade Resources Corp.
Marketing Agreement:	
Commodity Swap	[Barelays Bank pic (Aa2/AA) or Nat West Bank (Aa2/AA)]
Counterparty:	
Interest Rate Swap	[Enron Corporation]
Counterparty:	
Lender under (Loan	[CRGCAFCO]
Agreementl:	
Borrower under (Loan	Delta
· · · · · · · · · · · · · · · · · · ·	· ·
Agreement):	1000
Liquidity Banks:	Initially, Citibank, N.A. Syndication in 1999 is under consideration.
	Companies State St
Forward Sale	Agreement between Seller & Purchaser specifying Seller's obligations to deliver natural gas & crude vil to
Agreement:	Purchaser. Specifications include volumes, price & delivery points.
Commodity Margin	Agreement whereby ENGMC will provide initial and on-going margin for the benefit of the Commodity
Agreement:	Swap Counterparty. The purpose of margin is to protect the Commodity Swap counterparty in the event that
Agreement.	the transaction terminates at a point where Delta would owe to the Commodity Swap counterparty breakage-
	Margin is not expected to be posted by the AA rated Commodity Swap counterparty.
Commodity Swap	Agreement between the Commodity Swap Counterparty and Delta to hedge Seller's forward delivery of gas
Agreement:	and crude.
Surety Bond:	Agreement whereby Surety Companies will make a payment to the Purchaser should the Guarantor fail to deliver gas or crude or fail to pay the "Replacement Value" under the Forward Sale Agreement.
W	Agreement between Delta & Marketer, whereby Marketer agrees to remarket the gas and crude on behalf of
Marketing Agreement:	Delta at index price to diverse pool of single A purchasers.
[Loan Agreement]:	Agreement whereby Lender will loan \$500MM to Borrower to be used by Borrower to prepay its obligation
ILoun Agreemenij.	to purchase gas and crude under the Forward Sale Agreement
Asset Purchase	Agreement whereby the Liquidity Banks will agree to purchase the outstanding loan in the event that
	[CRC/CAFCO] cannot or will not continue to fund the loan.
Agreement:	
Interest Rate Swap	Agreement between Delta and the Interest Rate Swap Counterparty hedging the mismatch between the
Agreement:	fixed-rate loan and the floating-rate funding cost of [CRC/CAFCO] if CP funded or the Liquidity Banks, if
=	bank funded. Earon will post margin under this agreement to protect Delta in the event that the transaction
	terminates at a point where Enron would owe Delta breakage.
Епгоп Сиагалту:	Agreement requiring Earon to guarantee all of its affiliates obligations under the Forward Sale Agreement, the Commodity Margia Agreement, the Marketing Agreement and the Interest Rate Swap Agreement.
	the Commodity Margin Agreement, the Marketing Agreement and the Interest Agreement

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Transaction Description

The transaction is made up of several components:



- 1. Forward Sale: The Seller enters into Forward Sale Agreement with the Purchaser, by which Seller agrees to deliver a fixed amount of natural gas and crude oil of a minimum quality standard at a specific times and delivery point(s) to Purchaser. Gas and oil will be delivered in a equal monthly amounts over a three year period. In exchange Purchaser pays Seller \$500MM at closing.
- 2. <u>Guaranty</u>: Enron and Delta enter into the Enron Guaranty Agreement, by which Enron guarantees ENGMC's obligation to deliver gas, and all other affiliate obligations to perform under all Transaction documents.
- 3. <u>Sureties:</u> Surety bonds are provided by five insurance companies, all of who are rated "A" or better. The surety bonds are "hell or high water" bonds which will make a payment to the Purchaser 10 days after receiving notification from the Purchaser of the failure of the Seller and Guarantor to deliver gas or make a Replacement Value" payment. The amount of the payment from each Surety Company will be the lesser of: (1) a scheduled fixed amount which begins at \$100MM and reduces as per a schedule on a monthly basis ("Maximum Penal Sum"), and (2) the present value of the gas remaining to be delivered at the then market gas price.
- 4. <u>Commodity Price Swap</u>: The purpose of the Commodity Swap is to convert the gas and crude to be received from the Seller into a stream of cash flows which will repay the principal and interest owing on the Loan between Delta and [CRC/CAFCO]. The amounts, timing and other terms of the swap payments will mirror those in the Forward Sale Agreement to ensure no leakage from the structure. Delta and the Commodity Swap counterparty will enter into a three year swap in which Delta will pay the floating "Index" price of gas per MMBtu and crude oil per barrel for the delivery point(s) and dates in question, and receive a fixed and unchanging price per MMBtu of gas or price per barrel for crude oil. The total amount of gas and crude oil swapped will equal the amount of gas delivered by ENGMC. The timing of the swap flows will coincide with the gas and oil to be delivered by ENGMC.
- 5. Interest Rate Swap: The purpose of the interest rate swap is to hedge the mismatch between the fixed rate Delta will use to determine the Purchase Price and [CRC/CAFCO]'s or the Liquidity Banks variable rate funding costs. Delta and [Enron Corp.(or a subsidiary of Enron which will guaranteed by Enron Corp.)] will enter into a three year swap in which Delta will pay a fixed interest rate based on the ameritaing, notional amount of the Loan, and will receive its floating funding cost. If the Lender is [CRC/CAFCO], the floating rate received by Delta will be based on [CRC/CAFCO]'s CP cost of funds plus the program fee, liquidity bank commitment fee, and other costs. If the Liquidity Bank(s) have purchased the Loan from [CRC/CAFCO], the floating rate received by Delta will be adjusted to reflect drawn pricing under the liquidity facility.
- 6. Remarketing Agreement: An agreement between Delta and ECT, in which ECT agrees to act as Delta's agent and sell the gas or crude oil purchased by Delta. ECT may sell the gas or crude to (1) any purchased who is rated A or higher, as long as each such buyer does not constitute more than [5%] of the commodity purchased in that month, or (2) any other purchaser, including Enron or an Enron subsidiary, provided however that, if the purchaser is Enron or an Enron affiliate, there must be cash prepayment for such purchase simultaneous with or prior to delivery of the gas or crude. These two circumstances fulfill [CRC/CAFCO]'s obligor diversity criteria for purchasers of the commodity. [CRC/CAFCO] will require coverage for obligor concentration risk. This may be accomplished through 1) recourse to Enron, or il 3 surery wrap by a Sucrety rated at least "A". ECT will agree [to use its best effors) to deliver to Delta on specific dates an amount equal to the Index price on such date times the volume of oil or gas Enron is obligated to deliver on such date. In order to avoid commodity futures exchange regulatory issues, the

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sales of the gas/crude oil from Delta may need to initially be sold to another entity such as Vega, a special purpose Cayman Islands corporation used in other Citibank arranged commodity transactions.

The Loan agreement whereby [CRC/CAFCO] will lend \$300MM to Delta. The A Credit Agreement.

The Loan will amortize over 3 years. The fully-loaded CP or the Seller under the Forward Sale Agreement. The Loan will amortize over 3 years. The fully-loaded CP or bank funded carrying cost, in either case is to be covered by the floating swap payments from the laterest Rate Swap counterparty, Enron.

8. Asset Purchase Agreement: Agreement initially between Citibank, NA (as the initial Liquidity Bank), [CRC/CAFCO], and Delta. This agreement provides that the Liquidity Banks will purchase the Loan in the event that [CRC/CAFCO] cannot or will not continue to fund the Loan. In essence, the Liquidity Banks are taking the credit risk of the non-payment by the Surety Companies in the event that Enron fails to perform under the Forward Sale Agreement, the credit risk of the Commodity Swap counterparty in the event commodity prices have fallen, and the credit risk of Enron as the Interest Rate Swap counterparty, and on the Margin Agreement in the event Enron Fails to deliver when commodity prices have risen.

Pricing

Upfront Structuring Fee

\$2,500,000

On-Going Program Fee: Liquidity Fee:

25 bos [25] bps

Dealer/Investor Fees: Less:

7 bps

Credit Enhancement

Credit Enhancement Net Annual Income

\$2,385,000 first 12 months ongoing revenue assuming \$450,000,000 are outstanding

Libor + 125 Assignee Rate (bank funded):

First 12 months New Net Revenue to Citicory:

\$4,885,000

(Allocation between Product and Relationship Groups TBD)

Syndication Strategy
Citibank will initially provide 100% of the liquidity in this transaction and will ultimately hold \$125 MM.

Attached is the Loan Syndication Approval Memo for an underwriting of \$375 MM in liquidity commitments to be syndicated in the first quarter of 1999.

Key Risks & Mitigants

Risk 1: The Seller fails to deliver gas, and Enron Corporation fails to honor its guaranty.

If the Seller fails to deliver gas as scheduled, the Forward Sales Agreement provides for a payment by the Seller of the "Replacement Value" in the amount of the economic shortfall sustained by the Purchaser, consisting of the cost to replace the deficient quantity, including transportation and other costs and fees associated with the purchase. If the Şeller fails to make this payment, an "Early Termination Event" has

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occurred and a "Termination Payment" plus any "Unpaid Amounts" are due. The Purchaser can then call upon the surety bonds to pay it an amount equal to the lesser of:

- (3) the present value of the future gas to be delivered valued at the prevailing market index gas price; and
- (2) a scheduled fixed amount which begins at \$500MM (in aggregate) and reduces on a monthly basis ("Maximum Penal Sum" or outstanding Loan balance) to reflect the amortization of the deal.

Hence the risk profile will depend on how the price of gas or crude has moved between the day that the deal was entered into (and the fixed gas price under the commodity swap was finalized), and the day payment is made by the Surety Companies.

If the price for gas and crude has risen (index > fixed price), the amount paid by the Surety Companies will be based on the fixed price and will be equal to the Maximum Penal Sum. This amount will always be equal to the amount outstanding under the Credit Agreement, and the conduit(s) or the liquidity bank(s) will be fully repaid. The margin under the Margin Agreement is needed to cover any breakage fees in terminating the Commodity Swap.

If the price of gas and crude has fallen (index< fixed price), the amount paid by the Surety Companies will be based on the index price. Since the price of gas or crude has fallen, the amount paid by the Surety Companies is less than the Maximum Penal Sum, and less than the principal outstanding under the Loan. The "cash out" value of the Commodity Swap will be positive for Delta and, together with the Surety Companies' payments, will be equal to the outstanding Loan principal. The Commodity Swap counterparty will be a highly rated financial institution (we anticipate Barclays or Natwest). Enron, who will act as the Interest Rate Swap counterparty, is rated BBB+/Baa2 by S&P and Moody's respectively.

Risk 2: Enron delivers gas, but experiences "credit difficulties"

 χ "Guarantor Event of Default" as defined in the Enron Guaranty (which includes cross payment default, cross acceleration, and bankruptery) constitutes an Event of Default under the Forward Sale Agreement, and hence permits a call on the surety bonds. In this case the transaction is terminated, and if the Surety Tompanies and both swap counterparties fulfill their obligations, the Lender will be repaid in full.

The terms of the Margin Agreement are of less concern to the Liquidity Banks since they are looking primarily to the Surery Companies for payment if Enron fails to perform. Nonetheless, mechanically, if there is a "Trigger Event" under the Margin Agreement (which is defined as a breech of a debt capitalization test or a net worth test), then Enron must post margin for the full amount of the exposure under the Commodity Swap. However this does not trigger a Termination Event unless the company fails to post margin. Hence it is possible for Enron to fail certain financial tests, but as long as it delivers gas, posts margin, and does not breech a "Guarantor Event of Default", there will be no Termination Event under this transaction.

Risk 3: ENGMC delivers gas, but ECT fails to resell gas under remarketing agreement.

The Purchaser has the ability to replace ECT as marketer of the gas at its sole discretion. Given the liquidity of this commodity at the specified delivery points, finding an alternate marketer and reselling the gas should be achievable. Subsequent to delivery, Delta will have a secured interest in the gas or crude oil collateral.

Risk 4: Fixed-Floating interest rate mismatch.

The interest rate on the loan from [CRC/CAFCO] will be floating (either CP funded through [CRC/CAFCO] or bank funded through the Asset Purchase Agreement), whereas eash flow into Delta is

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determined using a fixed discount rate. The floating leg of the interest rate swap provided by Enron will be set to cover the Delta's full funding cost, whether CP or bank funded. Enron, who will act as the interest rate swap counterparty, is rated BBB+/Baa2 by S&P and Moody's respectively. Citibank's Derivatives group has established the PSR exposure to Enron to be \$20 MM.

VII. Policy or Program Exceptions

None.

VIII. Commercial Paper Related Securities Law Considerations N/A

IX.

Clean Risk will be approved by Global Energy for the risk associated with the borrower and transaction. In addition, Global Insurance will be approving Citibank's retained share of the total Transaction's \$110MM in obligor risk exposure to each of the 5 Surety Companies for 6 months. Global Loans will underwrite \$375MM of liquidity commitments to be syndicated during the second quarter of

- XI. Attachments / Exhibits

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Control Unit CA
 Global Loaps-Approval Memorandum

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PROJECT ROOSEVELT

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☐ Cheryl Jackson, Administrative	Assistant	(212) 559-5427
re: December 24, 1998		Fax: (212) 793-3728

Re: Project Roosevelt Status Report
No. of Pages (including caver): 2

Merry Christmas!

Attached is an outline of major issues related to project Roosevelt for the working group to think about

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Permanent Subcommittee on Investigations

EXHIBIT #188d

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PROJECT ROOSEVELT OVERVIEW OF MAJOR ISSUES (12/24/98)

Background

Project Roosevelt arose two weeks ago when Project Powerball was deferred to 1999, creating a \$500 Million year-end funding need.

Enron's goals include (i) use of a Prepaid Hydrocarbons structure, (ii) limited recourse and (iii) closing prior to 12/31/38.

Citibank's goals include (i) CP Conduit funding, (ii) 364-day renewable bank liquidity backstop, (iii) avoiding any 'physical' hydrocarbons-related risks which Citibank is unable to deal with and (iv) keeping transaction tenor within three years.

Implications

- CP Conduit funding means the transaction must comply with what we've represented to the rating agencies and CP investors; including:
 - 'A' quality pool (either through each obligor's own ratings, like the sureties, or through diversity and overcollateral on the sales side)
 Surety coverage of Unpaid Amounts on the supply side
 Matching of swap and surety bond bases
 Avoidance of grace periods and notice requirements if Enron has failed to

 - supply

 Cash control and avoidance of commingled sales proceeds

 Funding cost coverage, whether CP or Libor based
- 2. Avoidance of 'physical' hydrocarbons-related risks means:
 - Making sure that any delivery, measurement, reporting, insuring, and compliance obligations which Delta incurs through the Forward Sale Agreement are passed on through the Marketing Agreement.

 Making sure obligor 'failure to take' risk is passed on to whichever entity arranged the sales contract.

 Making sure that 'servicing' costs incurred by Delta in pursuit of delinquent gas or oil obligors are covered.
- 3. Delayed Amortization and Associated Issues:

 - Credit approvals have been sought on the basis of a three year final maturity and fairly equal 16-month amortization. There may be room for flexibility (perhaps starting shipments as late as March 1993) provided the final maturity remains three years.
 in fact, delaying the onset of amortization a few months may help us resolve certain issues (establishing a second bankruptcy-remots special purpose company, determining how best, to overcollateratize the pool on the sales side, etc).

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PROJECT ROOSEVELT

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ata: December 24, 1998		Fex:	(212) 793-3728
e: Project Roosevelt Stants Report			

No. of Pages (including cover): 3

Merry Christmas!

Attached is a Status Report as of this morning.

This facrimile is confidential, may also be privileged and is intended solely for the use of the individual or entry named above. If you are not the instanded recipions, or the employee or agend responsible for delivering it to the intended recipions, you are hereby notified that any distantination, distribution, copying or wher nontributived use of this communication is stretch probabled. If you have recorded this facination is every please and/y as immediately by teisphane and return the factionite so the render at the above address via the United States Postal Service.

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Permanent Subcommittee on Investigations EXHIBIT #188e

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Project Roosevelt 1998 CAFCO/CRC Loan Facility Status Report as of 12/14/98 8:38:25 AM

1. Mandate Letter/Final	Fres	/ 10 de 124	
Schedule of Events Item	Status	Responsible	Comments
Finalize feet & mandate	Open"	Maciciewicz,	
letter		Reilly	

II. Approvals & Related	· 医线性 经通过	- 10 miles	Eligible Alternation of the section
Schedule of Events Item	Status	Responsible	Comments
Citicorp Credit Approvals Global Energy (Enron) Securitation Global Insurance (Survies) Global Insurance (Survies) Global Insurance (Code Writing) Global Derivative (Commodity Swap Provider)	Opes.	Reilly, Dizz, Brill, Gorta, Kniick	Final approvals expected 12/28.
Cincoep Deta, Energy Carpy' ega Raguistany' Businest Inves • Who manages' who can commit • Issue re ability to de deal (authority, no residual lishilities from previous deals, sun.) Regulatory insues, Off Euchaupe, eur	Opea	Diaz, Suflivan, Johnson	Neither Data nor Vega are involved with any current deals, however, Vega appears not to be "clean". Maples & Calder is contact for incuse such as residual liability from previous deals, authority of Delta to enter into Roosevelt, see. Transaction Documents contemplate significant activities by, repayawarrant & coverantes from Delta—occol to continu appropriateness/capability with M&C. Need to find out if a Management' Administration Agreement exists & with whom? Banawell to contact M&C.

III. Cash Flow Modeling	Lash Flow Modeling and the William Difference of the Arman and California Arman Control		
Schedule of Events Item	Status	Responsible	Comments
Develop & Distribute Cash Flow Model	✓ Completed	Enros	initial model showing natural gas only.
Revise model to show natural gas & crude oil	Opes	Enros	
Review cash flow model	Ореа	Speec, Baillie, Kulick	Review in conjunction with documents to identify any timing & cash flow leakages

IV. CRC/C VI/CO Issue	 100 (100) 	and the second section	The figure of the first of the first of the
Schedule of Events Item	Status		Comments
Determine law firm to use for Asset Purchase Agreement & form of APA	✓ Completed	Diaz, Johnson, Hill, Clark	N.A. Use SMA form until we syndicate then use APA.
Decide on montanism to satisfy conduit reserve requirements	Open	Diaz, Hill, Clark, Eartn	Conduits require reserves (through overcollateralization, recourse, 3 rd party support, etc.) for leakages in structure (dilution, obligor risk, etc.). Conduit not in the position to take on Delta performance risk.

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Project Roosevelt 1998 CAFCO/CRC Loan Facility Status Report as of 12/24/98 8:38:25 AM

V. Documentation	er en de p	gridentsysä kai L	British and a second of the property of the property of
Schedule of Events Item	Status	Responsible	Comments
Forward Sale Agreement	Initial Draft	Bracewell, V&E	Unpaid Amounts included in Surety Termination Pyms to match Commodity Swap calculation Default also based on knowledge of Responsible Officer
Euron Guarantee	Initial Draft	Bracewell, V&E	Coverage of Marketing Agreement Coverage of Interest Rase Swap Assignees of debt signing confidentiality agreements
Surety Boad	Initial Draft	Earon (?)	Assignment to Collateral Agent Cowarge of accrued interest Use as margin for Swap Counterparty(ies) Additional D&P language sent out 12/23
Commodity Swap	Initial Dyaft	Bracewell, V&E	Form of schedule-existing Barclays/Enron form or firm previously distributed?
Commodity Swap Margin Agreement	Initial Draft	Bracewell, V&E	
Commodity Swap Margin Assignment Agreement	Initial Draft	Bracewell, V&E	
Interest Rate Swap (w/margin)	Оред	Bracewell, V&E	Coverage of all interest, fixes & similar payments—reserve adjusted Libo, increase costs, conduit fixes, etc.
Marketing Agreement	Initial Draft	Bracewell, V&E	LOC to cover purchaser defaults, increased costs, taxes & other leakages not covered elsewhere (Surety Bond, Guarantee, Swaps)
Credit Agreement	Initial Draft	Bracewell	
Security Agreement	Initial Draft	Bracewell	Priority of Enron as interest swap comparparty
Delta Administration/ Management Agrocment	7	M&C, Bracewell, Ciri	Does one exist? With whom? Would it cover this Transaction? If not, who would be manager/administrator?
Earon Corporate Certificates/Opinions	Ореа	Enron, V&E	
Delta Energy Certificates/Opinions	Open	M&C, Bracewell	

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Legal:	Susan Johnson	(212) 793-6152	
<u> </u>	William Sollivan	(212)793-4282	
Vinson & Kikins, L.L.P.	Trina Chandier	(713) 615-5088	
□	Steve Costs	(713) 615-5925	
Bracewell & Patterson, L.L.P.	Alan Rafle	(713) 221-1212	
J	Sheryi Gussett	(713) 221-1212	
Maples & Calder, Delta Counsel	Nicola Melia	(345) 949-8080	
	Jullian Reddybough	(345) 949-8080	
Barclays Bank, plc	Richard Williams	(212) 412-7585	
o :	Jonathan Taylor	011-44-171-773-0410	
From: D Jean M. Diaz, Vice President		Phone: (212) 559-5260	
Wade Speas, Associate		(212) 559-6179	
Cheryl Jackson, Administrative	Assistant	(212) 559-5427	
Date:		Fax: (212) 793-3728	
Re: Project Roosevelt Status Report			

Jim Lets try this again please call if the fax is illegible. Wade Speas

This factivitie is confideredal, may also be privileged and is intended solely for the use of the individual or only named above. If you are not the intended recipient, or the employee or agent responsible for delivering it to the indended recipient, you are hereby notified that any distantiables, distribution, copying or other anouthorized see of this communication is strictly prohibited. If you have received this factionile is error, please easily as tomediately by telephone and return the factionile to the sender at the above address via the United States Pestal Service.

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CITI-SPSI 0025989

Permanent Subcommittee on Investigations
EXHIBIT #188f

	•	<u></u>
MILE/TOPIC: From	- Pront Roomelt	ATE 12/28 1
TRANSACTION REFERENCE:	- Proposition of the Parket of the State of	AGE:
Overall Crown	: Rest of oursealing reed to frank	to Delxa to
Deland		
Stalle	give then enough time to:	
	1) aut new marketing as	greet.
i	2) get Vega or other entity	in stars
	to purchase commodities	from Delta
	> 3) get forwarball on other	
. =	3) out forwarball on other	n replacet
1	Would like to stand delie	en in May
i	- 1 - Dayment in June	
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- Delta :	Enron agreed to obtain	meuran
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Oliver rich	reserve = 3 x rolein	Mai limi
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	to cover costs for other	ـ معیلاً
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amounts	Enron " preas to be OK - Dre D. that sure vies are OK W/o	willengen
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		LORD SPV
	Í	NEW YORK . DELAWARI LUMBON . JERRET
	Two Wall Street New York, New York 10005 212-346-9000	Tonto

CONFIDENTIAL

MILE/TOPIC: Emm	· Print Proserett	DATE: 12/581
TRANSACTION/REFERENCE	Isaus	PAGE: Q
<u> </u>		
Events of Default	Enron has accepted our regarding receipt of not an on beloef of Delta	- Markete
Guaranton Default	Enson has accepted of to have Granda Difa Terminasia Ever for	en reque all be deal
Other Guarantees	Enror has agreed segande gudantee Truse surop & Commo	
more against audis Pringles	Erun wants to limit and to default under Mhrty a or Punchasen Default	que .
Berry atomit	The second secon	
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Harrower Gramme	- we can probably accept	the.
SoloTaxes	- Ema will get resole certer collect to see from Pure	have a
Carris Cost - CP+ related - Cost free - Decream Fall - Program Fall - Sugardy Fall	Enon will pay through	Indus Ruks
Puchager Defaults	Eno wil provide reserve	
Price Risk Contract Consuc	Casumed by Ena in Mh Two WALL STREET NEW YORK, NEW YORK 10005 212-346-9000	LORD/SPV New York . Detaral Louise . Jesset Tocro

CONFIDENTIAL

METONE ENDON	Pront Charles 12/28
TRANSACTION REFERENCE:	Japus 1 Mage: 5
Tank Drand	
	Termination (covered by Surely?)
LIBO Brashage	Concerned about off-
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Dolar Has	
Transportati	
Sous;	Enon wonts the following Resource falls away if put to bank A fail to repland research of put to banks Locality to compare the control of the control Wat to believe in walth water myster Large Published Sa oblight threshold April to bonks LORDISPY New York 10005 212.346.9000 TWO WALL STREET NEW YORK, NEW YORK 10005 212.346.9000

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CMAC Minutes June 22, 1999

Members Attending: Fred Chapey (Chairman), Eleanor Wagner (Client Risk Management), Jim Gamett (Risk Architecture), K. Anandasagar (Audit & Risk Review), Susan Hayward (Secretary)

Committee Members Absent (Represented by): Catherine Genzlinger (Robert Notan/Mike Lalo). Mel Taub (Ned Schoenfeld), Bill Mackey/Mike Day (Pat Butler/Laura Lam), Marcy Engel (Scott Flood)

Guests: Tom Francois, Ramesh Gupta, Lynn Feintech, Joe Erlanger, Narayan Prasad, Mike O'Donnell, Nancy Paulson, Shenghua Hu, Apoorva Koticha

Cancellable Step-Down Swap
Presenter: Nancy Rankin, Gloria Schneider

A structure was presented that will provide yield enhancement to customers that have a view that interest rates will not exceed a predetermined Libor threshold level. The structure consists of a combination of products that Citibank currently trades. However, based on the combination of the components and the cancelability feature, the transaction can not be booked in the back office processing system. Therefore a spreadsheet has been developed to initially book the deal until it can be booked in the back office system. The spreadsheet has been smell tested by risk analytics. Operations policy is to limit the number of spreadsheet transactions to five per desk. The Dosk will follow-up with Operations to determine how many spreadsheet deals are outstanding. This will determine the number of deals that the originators can execute.

The committee also discussed the ability to independently price the structure. The rate reasonability group will be contacted to ensure that they can obtain the necessary market information check the MTM of the structure.

The deal has been approved by the committee.

Follow-ups
Determine the number of deals that are booked on a spreadsheet. (Mike Lalo/PST) Ensure that rate reasonability unit can obtain the market rates (Ine Erlanger)

Prepaid Oil Transaction Presenter: Adam Kulick, Jim Reilly

A transaction was discussed which would allow Enron to execute a prepaid 3 month swap on 30MM barrels of oil (citi pays fixed price at inception - appx \$500MM -- and receives

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Permanent Subcommittee on Investigations

EXHIBIT #188g

floating price at maturity). The transaction provides favorable accounting treatment for the customer. Although the deal is effectively a loan, the form of the transaction would allow the customer to reflect it as "liabilities from price risk management activity" on their on their balance sheet and also provide a favourable impact on reported cash flow from operations.

The committee discussed the following issues:

- The appropriateness of the transaction. The RM stated that the transaction was and appropriate for the customer and that prepaid forwards are common with others in the industry and that the company discusses/discloses treatment with external auditors and rating agencies. Additionally, the internal approval for the transaction will and sating sections. Productionary, the manual approval to the transformer and that the RM has had numerous conversations with Senior Management of the company about the structure.
- Margin arrangement. Although the client has a margin agreement with Citibank, the
- transaction will not be covered under the agreement.

 The appropriate Desk to book the transaction. Fred Chapey will have discussions with the trading desk and the originators to decide if it would be more appropriate to book the deal on the Commodities Desk.

The transaction was approved subject to:

Follow up items

- Ensure that appropriateness and suitability of the transaction to the customer are covered under the deal approval. (Adam Kulick/Jim Reilly)

 Decide which desk to book the transaction (Fred Chapey)

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speas, wade

Bailie, Steve Wednesday, September 29, 1999 8:02 PM Machiewicz, Joseph J. Baille, Steve: Reilly, James F; Speas, Wade Enron - Roosevelt

Joseph,

This email is to confirm that

- Global Energy and Mining ("GEM") have approved the full \$125MM still outstanding under the "Roosavelt" prepaid. Our approval runs for another 4+ years. (as an aside, in addition, in our most recent Enron memo, we comment that our expectation was now that the deat would not be repaid until Decamber). Our approval to extend delivenes was done verbally.
- 2. We do not believe that we (i.e. GEM) need any form-of approval/acknowledgement from Global Insurance since we approve the entire deal size (although I was unable to confirm this with Tom Stott as he is away this week).

Regards

Permanent Subcommittee on Investigations EXHIBIT #188h

1



Simon Crowe 25/11/99 15:06

To:

Janine Juggins/LON/ECT@ECT

Subject: Truman financial prepay diagram

FYI

Forwarded by Simon Crowe/LON/ECT on 11/25/99 03:06 PM -----



Jung-Suk Suh 11/24/99 07:10 PM

To:

Paul Chivers/LON/ECT@ECT, Treas Kirby/LON/ECT@ECT, Simon Crowe/LON/ECT@ECT BII W Brown/HOU/ECT@ECT, Doug McDowell/HOU/ECT@ECT

Subject: Truman financial prepay diagram

The diagram below shows the Truman prepay that was closed Sep 29, 1999. Citibank provides the prepay swap, while TD provides the commodity swap on half the transaction, and their roles are reversed in the other half. We were able to substantially lower the commodity swap charge because Citibank and TD have essentially offsetting risk under their commodity swaps.

The second alternative that we spoke of was utilizing three banks (i.e. Citibank, Barclays, RBS) as the prepay providers and TD as the commodity swap provider in all three prepays. This would allow the participation of Citi, Barclays and RBS, but would result in higher commodity swap costs because TD would bear incremental credit risk from the three banks. The diagram for alternative 2 would simply be the "Citibank Prepay" diagram, with Citibank replaced with Barclays and RBS for the other two prepays.

Please call with any questions.

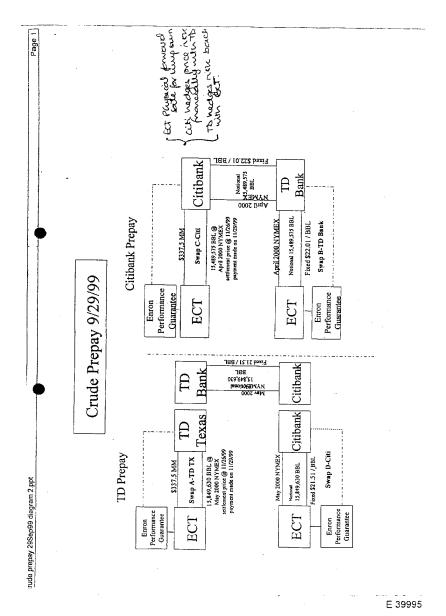
Jung Suh 713-853-7666



crude prepay 29Sep99 diagram 2.

Permanent Subcommittee on Investigations EXHIBIT #188i

E 39994



Confidential Treatment Requested By Wilmer, Cutler & Pickering

Janine Juggins 25/11/99 15:19

To: cc:	Simon Crowe/LON/ECT@ECT Treasa Kirby/LON/ECT@ECT, Matthew Lan	dy/LON/ECT@ECT
Subject:	Re: Y2 🛅	
Just to c	dose the loop on this one following our dis	cussion, I will need by January to:
confir	detailed understanding of the Citi/Y2 swa rm the netting point ernatively confirm that no payments will i	Erron Corp. email November 1999, Subject: Re: Y2
Regards		
Janine	-	Judiset: Re: Y2
Slmon C	Crowe	(Corenite II)
Щ		•
	Simon Crowe 25/11/99 11:24	<i>y</i>
To: cc:	Janine Juggins/LON/ECT@ECT Treasa Kirby/LON/ECT@ECT	7 10
Subject:	Re: Y2 🖹	· '
A few p	oints	
EquSeeWeY2No	we requested all the closing docs for Yoe I al and opposite payments but not necessar the swap for the netting language will insert the 1/1/20001 first repayment will set up a UK bank account discussion on new EU WHT bond will be listed in Lux	
No dou	bt we will speak later.	
regards	•	
Simon		
Janine J	ariggu	
Û.	Janine Juggins 11/24/99 06:10 PM	
To:	Treasa Kirby/LON/ECT@ECT	- 4./! ON/ECTOECT 1 (4/! ON/ECTOECT

Permanent Subcommittee on Investigations
EXHIBIT #188j

E 39996

Subject: Y2

1. US withholding on Citi swap with Y2

I still need copies of the underlying Y1/Ctd swap documentation to properly analyse the transaction. As I mentioned the draft on Matt's file is dated 3 Nov and appears to exclude the cashflows from netting this is critical.

I am assuming that all of the funding mismatch is now taken care of by the Enron Corp Magic note, so that all that the Citi/Y2 swap represents is:

- Y2 pays to Citi an amount equal to the interest on the Delta notes Citi pays to Y2 an amount equal to the interest on the Delta notes
- Citi makes various payments to Y2 in the event of an Enron credit event

It is assumed that the first two Items are equal and opposite so that if netting applies there will be no residual payment upon which to apply withholding. Please can you confirm:

i) that the assumption re equal and opposite payments is correct; and ii) that netting applies to all payments under the swap

If this is not the case, such that some payments are made by Clti to Y2, then our position would be:

- 1. That the swap is a notional principal contract (sourced to the payee ie Jersey) therefore no US
- withholding

 2. With equal and opposite payments it may be difficult to get within the definition of an NPC (although It is not clear out) therefore we would then be in the same position as the other swap - basically a withholding risk for 2000 but not after 1/1/2001.

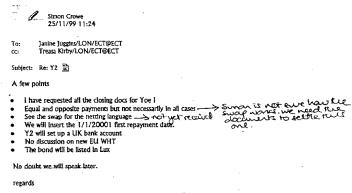
To summarise - best position is netting with no residual payment, fallback is NPC argument, if we are not comfortable with this fallback then the safest route would be to defer payments until 1/1/2001 to catch the new rules.

Just to confirm, it is the Y2 that will set up a UK bank account and not a Jersey-paying agent.

Since the interest is not UK source the fact that Y2 uses a UK bank account will not introduce additional UK withholding risk. In any event the bonds are quoted Eurobonds held within Cedelbank and Euroclear so no UK withholding will apply.

Treasa, has there been any discussion with respect to the risk of a new EU withholding tax, other than what is already in the offering memorandum? Although we have a Jersey issuer the Eurobond will be listed in Luxembourg I believe.

Regards Janine



Janine Juggins

Simon

Janine Juggins 11/24/99 06:10 PM

Treasa Kirby/LON/ECT@ECT
Simon Crowe/LON/ECT@ECT, Matthew Landy/LON/ECT@ECT, James Sandt/LON/ECT@ECT To: CC:

1. US withholding on Citi swap with Y2

this is critical.

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E 39998

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- 1. Institute swap a a notional principal contract (sourced to the payee te Jersey) therefore no US withholding
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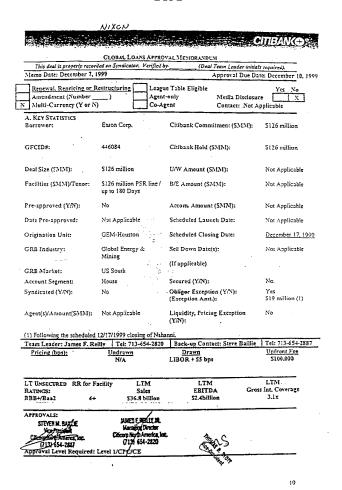
To summarise - best position is netting with no residual payment, fallback is NPC argument, if we are not comfortable with this fallback then the safest route would be to defer payments until 1/1/2001 to catch the new rules.

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Regards Janine



Permanent Subcommittee on Investigations
EXHIBIT #188k



DEAL TEAM:				
Global Loans:	Origination:	Research;	Derivatives:	Credit Admin:
	James F. Reilly 713-654-2820	Sumit Mathai 713-654-2868	Adam Kulick 212-723-6449	Carol Rooney 713-654-3590
	Steve Baillie 713-654-2887			

Recommend approval for a new PSR line available to Global Derivatives for the "Nixon" enude oil prepaid, a \$126 million transaction for Enron Corp ("Enron") with a tenor of up to 180 days. Final maturity is expected to be on or before 06/14/2000. Nixon is a financially sentled crude oil forward sale transaction at it is similar to the Trumun transactions, which closed in 1999. The intent is to retire Nixon with Yosemite II, a 1195 million Citi/SSB structured transaction that is designed refinance Enron bank paper in the UK long-term capital markets, in the first quarter 2000. If Yosemite II does not go forward the prepaid will be refinanced either through a dollar denominated Yosemite II transaction or a syndicated bank prepaid.

With this approval, Excon Total Facilities will be \$724 million. Outstanding and unused commitments total 5484 million, resulting in an Obligor Exception of \$19 million. These levels reflect the closing of the Nahami transaction, representing an increase of \$24.5 million (Nahami is expected to close on \$1217/1999). As outlined bare in the "Euron Exposure" section, the Yosemite transaction reduced Enron exposure by \$530 million, with the repayment of Truman and Rooseveit transactions.

At the December 17, 1999 closing, we expect to receive an upfront fee of \$100,000 on Nixon. The transaction yields a 55 bps drawn cost. Through not directly connected with Yosemite II, Nixon does Ecilitate the necessition of Yosemite II. Yosemite II is expected to yield ChirSSB revenues of approximately, \$2.0 million in bond underwriting fees and in excess of \$10.0 in other associated revenues itroughout its term, and has a similar structure to the \$825 million Yosemite transaction that closed on 11/13/1999.

B. SUMMARY

Transaction Description:

The Nixon transaction is expected to close on 12/17/1999, with Citibank advancing \$100 million in a crude oil prepaid forward sale transaction. The transaction is expected to have a tenor of up to 180 days, with payment of principal and interest scheduled on or before 06/14/2000. Including calculated exposure on the associated commodity price swap, Nixon related exposure to tasts \$150 million. Nixon is, in principal, similar to Truman, a \$400 million PSR (\$337 million funded) Citigroep arranged oil prepaid that closed in September 1999 and was repaid on 11/18/1999. Truman was a financially settled transaction.

At execution, Citibank will pay Euron \$100.0 million, derived as the product of a nominal number of barrels of oil and the 12/17 crude oil index price. At maturity, Euron will deliver cash equal to the nominal number of barrels at the thea current index price to scatle outstandings under Nixon. Commodity price risk and consequently any shortfull required to make up the balance of the losa is covered via a commodity swap with Toronto Dominion. Under the terms of the swap agreement, Toronto Dominion will pay Citibank the fixed price on the nominal barrels, in exchange for the value of the nominal barrels at the future index price. The aggregate of the exposures under this transaction will be covered by the \$126 million PSR, for which we are seeking approval in this memo.

Barclays and Royal Bank of Scotland will execute identical \$100 million oil-prepaid transactions with Enron, which will close simultaneously with Nixon. Toronto Dominion will enter into commodity swaps with Barclays and Royal Bank of Scotland, respectively.

mention TD-Enna Swap?

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Refinancing Plan:

Yosemite II
Citibank expects to eliminate the Euron exposure from Nixon via the £195 million capital markets
transaction, "Yosemite II", arranged by Citibank/SSI. It Yosemite II, a special purpose must will purchase
AAA investments and Euron loans from the bank market, totaling £195 million in aggregate. The
putchased paper will consist of crude oil/antural gas prepaids totaling £185 million. Yosemite II is
particularly valuable to Euron as a source of prepaids, because the prepaids under Yosemite II can achieve
tenors in excess of those available in the bank market. Prepaids assist in balancing the tenors in the
company's commodity trading book.

The trust will fund itself via the sale of 20 year Enron-Credit-Linked notes. We expect execution prior to the end of the second quarter 2000.

Recent/expected activity affecting our Enron exposure is outlined below. With the close of the Yosemite transaction, Total Facilities are \$544 million, Total Outstanding and Unused Commitments are \$362 million, and our Obligor Exception has been eliminated. The Truman and Roosevelt transactions were repaid with proceeds from Yosemite, which closed on 11/18/1999. Including exposure at the close of Nahami and Nixon, we expect Total Facilities to be \$724 million, Total Outstanding and Unused Commitments of \$484 million, and an Obligor Exception of \$19 million.

(S in Millions)	Total Facilities	Obligor Exception ³
Net @ 11-4-99	\$1,139	5406
(Truman)	(400)	. 0
(Roosevelt)	(130)	Ò
(Assignment of 364-day)	(15)	0
Net (a) Yosemite Close	\$594	S0
Surety Revolver Reduction	(20)	0
Nahanni	24	0
Nixon	126	19
Net @ 12-31-99	\$724	S19

Net @ 12-31-99 ST24 ST9 ST94 Obligor Limit increased to 5450 million from \$375 million in 08/99 for 4+ rated borrowers. At 12/31/1999, Obligor exception includes miscellaneous changes in exposure totaling \$(14) million.

In addition, we expect our \$11 million commitment to JT Holdings, Inc. (synthetic lease transaction) to be repaid prior to December 31, 1999. We have purchase default swap protection tooling \$124 million, and have \$30 million in Letters of Credit from margining under commodity swap transactions. Our \$30 million exposure in the Surery Revolver is backed by two AA rated insurance companies.

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CTIEAN(⊕°.

Change \$126

EXPOSURE SUMMARY

fin 5 millions)

Facility Description

Nixon Crude Oil Prepaid Current S0 Proposed \$126

02 3125 \$126

Enron Corp.
446084
BBB-92a22
PSR line for Prepaid Oil Firancing
5126 Million / up to 180 Days
5100,000 Borrower: GFCID 8: LT Unsecured Ratings (S&P and Moody's): I.T Unsecured Railings (S&P and Moody's):
Purpose:
Deal Size (\$MM):
Facilities (\$MM)/Tenor:
Upfront Fee (5) to Investors:
Undrawn Cost (\$psy, FF or CF, (at current/expected ratings):
Drawn Cost (\$psy, FF or CF, (at current/expected ratings):
Utilization Fee (at current/expected ratings):
Utilization Fee (at current/expected ratings):
Financial Covenants (Uss):
Admin. Agent:
Documentation Agent:
Syndication Agent:
Arrangement Fee (\$ or bps):
Admin. Agent:
Admin. Agent: Not Applicable
S5 bps
Not Applicable
Ves Not Applicable
Yes
None
Not Applicable
Not Applicable
Not Applicable
Not Applicable
Not Applicable
Not Applicable

C. RETURNS TO CITICORP

Return on transaction:
We expect to generate revenue of \$375,000 as: result of the Nixon transaction, consisting of a \$100,000 upfront fee and \$275,000 interest revenue. We expect to generate approximately 43 bps of RCRAP, based on RAP assets of \$53,25 million. Nixon is positioned to roll into the Yosemine II transaction. Yosemine II is expected to generate \$2.0 million in bond underwriting fees and in excess of \$10.0 million of other associated revenues.

Return of the Relationship: Revenue YTD September: \$21.6 million 12 Month 1998 Revenue: \$16.2 million RORAP YTD September: 286 bps 1998 RORAP: 148 bps

MANAGEMENT AND RELATIONSHIP BACKGROUND

We continue to maintain an attractive, strong relationship with Enron; one that will provide over \$30 million in revenues in 1999 at well-above hurdle RORAP levels. Our success to-date has been measured by management's comfort in our expertise and ability to structure, arrange and syndicate the company's "more-difficult", time-constrained financings.

As "Citigroup", we are now presented with additional opportunities with the company. Specifically, Chi/SSB was awarded roles in the company's common equity issuance in February, exchangeable notes instance (related to the EOG share exchange agreement and related EOG equity offering in July), the recent Conder structured bond transaction, and most importantly the high profile Yesemite transaction. In

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CITIBAN**∢**⇔°

addition, Entron has recognized that its key relationship banks have incurred increasing levels of exposure to the company. Consequently, Entron has taken several steps to reduce exposure including the Yosemite transaction, which reduced Citibank's exposure to Entron by \$330 million. However, Entron continues to believe that with our expanded role in the bank, bond and equity markets, and reduced exposure levels, should come the willingness to commit capital resources as necessary.

E. CREDIT UPDATE

Please see Enron Credit Update that is included in the Nahanni approval memorandum dated 12/4/1999, which is part of this approval package.

- EXHIBITS
- ENRON ANNUAL REVIEW
 GMPM

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From: Kirk, Niels C.
Sent: Monday, December 06, 1999 9:51 AM
To: Reilly, James F.; Kulick, Adam SSB.; Baillie, Steve
Subject: Yosemite 2 - Interim Solution
Importance: High

I spoke top Treasa this morning and provided our indicative pricing for the pre-paid.

Front-ends: \$250,000

Margin: L + 65 bp p.a.

Tenor: 90 days*

Treasa feels that 90 days is sufficient.

I spoke to Peter Charles of SSB syndicate. He confirmed that the bond "take-out" success hinges on RBS and most importantly the Prudential. Charles is very reluctant to put any probabilities on the success of this deal in the Sterling market (i.e. he doesn't want to be quoted as providing our first way-out...).

We should have a conference call this afternoon.

Niels (+ 44 171 500 2433)

Kirk, Niels

From: Sent: To: Subject: Kirk, Niels C. [Niels C. Kirk /70EULON] on behalf of Kirk, Niels C. 88 December 1999 16:46 Reilly, James F.; Kulick, Adam SSB.; Baillie, Steve Nixon - Interim Solution

Importance: High

Following various conversations, this afternoon I put on my cowboy hat and negotiated/agreed the following fees for Nixon with Treasa:

Front-Ends: \$200,000

Margin: L + 65 bp p.a.

Treasa now want to know where we stand on the credit approval as the want to trade next week.

p.s. I love working without a calculator...

Permanent Subcommittee on Investigations EXHIBIT #1881

DERIVATIVE CREDI	T FORM E-MAIL TO C	GMCD-DERIV (NAME / ID # / SUBJECT)			
Credit Approval Given By	Snane Williams	Fax ≠ 793-7955			
To confirm verbal credit approval for the	To confirm verbal credit approval for the following transaction:				
	TO BE COMPLETED BY DERIVATIV	E TRANSACTOR			
Legal Counterparty Name:	Enron North America, inc.				
Transaction Reference #:	50990287	Trade Date: December 14, 1999			
Early Cash Settlement:	Logal Vehicle Name:	Effective Date: December 15, 1999			
Mandatory	X CBNA	Maturity Date: March 15, 2000			
Optional (Citi Only)	Other	Tenor			
Optional (Third Party Only)		Notional Amount (SMM): \$164,000,000			
Optional (Either Party)	Product:	Matrix (bps p.a.):			
Cash Senie Date:	☐ IRCA ☐ Cap/Floor/Collar	MLIY (SMM): \$21,840,000			
Multiple Rollover Dates:	FRA Equity Derivative	Cross-Border RiskApproved:			
	CIRCA X Commodity Derivative	Clean Risk (SMM):			
Notification Days:	Swaption Other:	(:f applicable)			
Portfolio:		Settlement Risk(SMM): (if applicable)			
ı		Total Approval Amount (SMM):			
. Trader/Originator	Terras: (include as interest kines used, collareral, payment schedules for mismatched payments.	Credit Risk Factor (CRF) Used: 21 00%			
	Commedity Swap as part of Crisin Propey	Credit Risk Factor: STANDARD X SPECIAL DOES THE CREDIT RISK			
T- Jun		PACTOR REQUIRE: A NETTING AGREEMENT.			
(Required Signatures and Starters)		A MARGINING AGREEMENT "(If special CRF is used, attach CRF Unit Cinmel)			
SECTION 1. FOR N	ON-PAL NAMES ONLY: TO BE COMPL	ETED BY CONTROL UNIT			
Facility Number:	Credit Classification:	Credit Approvatigiven in accordance with			
Revision Date:	GFCID:	the Rules Governing the Extension of Cred			
	Fast NUmber:				
Control Unit Expense Code:		[Required Signatures and Stamps]			
SECTION 3: FOR PAL NAMI	es only: to be completed by cap	ITAL MARKETS CREDIT ADMINISTRATION			
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CWM - Credit D	erivative	Status: Preparing as a 12/14/99 10:20:04 AM
Deal #: 50990287 Ver.1	Orig./Trader: Timothy Swanson	Trader: Doug Warren
Linked Deal #: 50990288	Trade Date: 12/14/99	Broker:
Legal Entity: CSNA	Deal Type:	
COUNTERPARTY INFORMATION	PBG: No	Execution Copies: No
Vame: Enron North America, Corp		Customer ID:
Contact:	Telephone:	Fax:
ECONOMIC INFORMATION	Currency USD - U.S.	
Expiration Type:	Exercise Date: Exercise Frequency:	
Cancellable By:	Swap Settle:	
Amortization Att:	Notional: 104mm	
Eff. Date: 12/15/99	Term. Bate: 03/15/2000 Adj.: Yes	
Brokerage:		
Premium;		
Paid By:	Business Days: New York, London	
Payment Date:		
TIBANK PAYS:Fixed		
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	TRS Clean Finish:	TRS Dirty Finish:
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Enron North America, Corp	<	Credit Desk
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Floating Rate is April 2001 NYMEX Crude Futures Contract

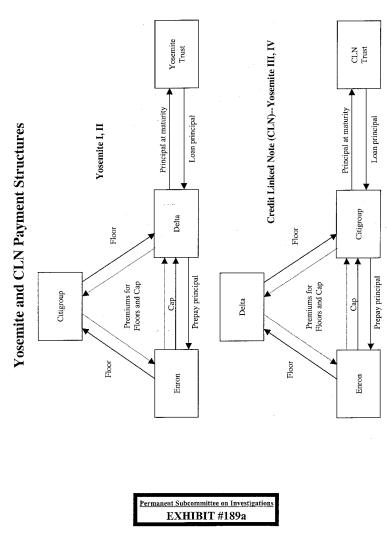
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Prepared by U.S. Senate Permanent Subcommittee on Investigations, August, 2002

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Project Yosemite

Objective:

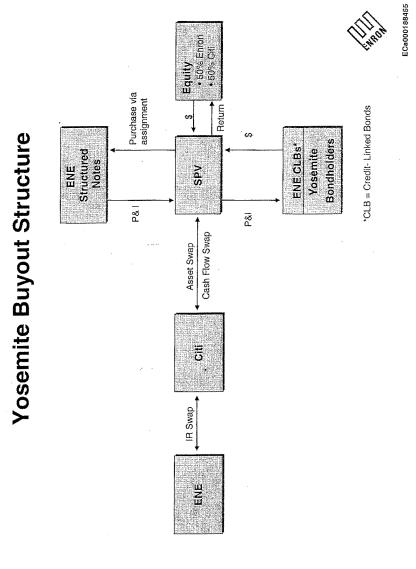
- Increase bank liquidity

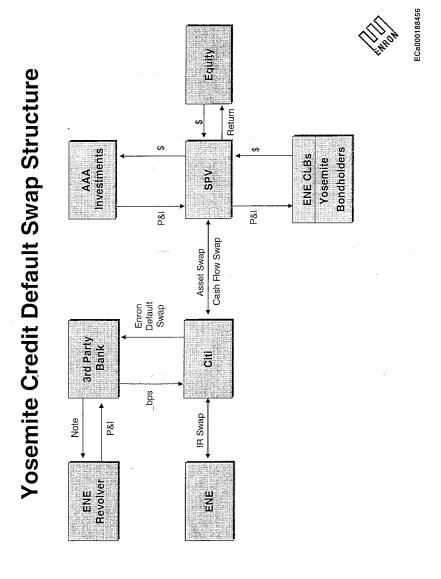
Highlights:

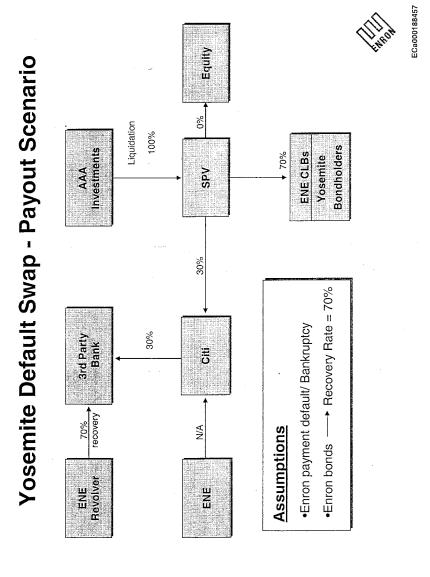
- Loan securitization vehicle for Enron structured debt
- Ability to target specific banks via credit default swaps
- "Black-box" feature

Permanent Subcommittee on Investigation EXHIBIT #189b

- ability to substitute structured loans
- disclosure limited to only Citibank
- No change in the accounting treatment of the underlying transactions
- Non-consolidation of the Yosemite SPV







Summary

- Yosemite provides for a permanent takeout of highly structured bank transactions while maintaining the flexibility typically associated with the bank market
- The "black-box" feature provides considerable flexibility through substitution rights while limiting disclosure to only Citibank.
- The Yosemite bonds should be received by the marketplace as the equivalent of a synthetic Enron bond and will receive a credit rating of BBB+/Baa2 (equivalent to Enron)



Transaction Memorandum Enron: Project Yosemite \$500MM - \$1,500MM Default Swap and Credit Linked Note DAC Meeting: April 6, 1999

Purpose:

This purpose of this memorandum is to obtain preliminary approval to seek a mandate to provide Enron's top tier banks with \$500MM to \$1,500MM of Enron default protection. Enron has asked Citibank/SSB to design a program that Enron can use to relieve credit capacity with their top tier banking relationships. Citigroup has proposed a solution whereby Citibank will either provide default protection to Enron's banks or effectively purchase their assets and in turn purchase protection from a fully capitalized SPV. Of specific interest for this meeting is our ability to assume some amount of basis risk between purchased and sold default protection and the treatment of the transaction on Enron's CA.

Client Need:

Enron puts a high degree of value on the innovative transaction brought to them by Enron top tier banks. These transactions have historically provided Enron with various forms of off balance sheet financing, tax efficient financing or cost effective equity-like financing. Recently Enron has been finding restriction in the capacity of the bank market to absorb Enron credit risk imbedded in these transactions. Enron is therefore seeking innovative solutions to increase bank credit capacity for their name while preserving the value added components of these deals.

Enron has outlined the following objectives for a transaction:

- 1. Increase bank credit capacity;
- Maintenance of existing balance sheet treatment of transactions; Expand investor base beyond commercial bank/top tier institutional investors;
- Cost-efficient funding source
- Target size of facility \$1BLN;
- Minimize rating agency disclosure; Have the ability to substitute facilities; 6.
- Minimize income losses to banks that would result if banks sold their holdings at current discounted market prices;
- Maintain bank group in existing deals. Ideally, banks who are not top tier participants in deals will be unaware of the "sale" of the existing positions of top
- 10. Close quickly.

Enron has identified several liabilities that vary in credit seniority for potential inclusion in a credit defeasance structure. Citibank has chosen from these several that we believe to be the equivalent to senior unsecured obligations of Enron on which

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Permanent Subcommittee on Investigation EXHIBIT #189c

Proposed Structure: (Default Swap Structure)

Citibank has proposed two transactions that meet Euron's objectives. In the first we provide default swaps to Euron's top tier banks on specific Enron liabilities. Citibank will in turn purchase default protection from an SPV collateralized with AAA rated asset-backed securities. To purchase the securities, the SPV will issue notes or certificates whose repayment is conditional on certain Enron Credit Events and the market value of Enron senior unsecured debt obligations.

Protection sold by Citibank will have as Reference Obligations either Enron 5-year revolving credit facilities, the A-Notes of synthetic lease transactions, or other Enron senior unsecured obligations. Protection purchased by Citibank will have as Reference Obligations senior unsecured debt of Enron. These are likely to be bonds and loans of Enron. There is clearly a small amount of basis risk in the transaction. Enron views our ability to understand and assume this basis risk as important to the transaction. This will be discussed later in this document.

Execution of default swaps provides the banks with credit protection that:

- 1 Provides RAP relies
- 2. Defeases risk without recognition of a gain/loss as the assets are not sold;
- Enables the bank to hedge existing deals without selling the exposure and disrupting the bank group.

Investors and rating agencies see a simple Enron Credit Linked Notes with repayment similar to an investment in a direct Enron obligation. The investors will receive a premium over a direct Enron obligation but pricing will be relatively tight, as there is little structural complexity in the transaction.

GAAP and RAP Assets:

The proposed transaction should not be consolidated for accounting purposes and will not result in GAAP assets for the bank. This still has to be confirmed by financial control and accounting policy.

The ideal RAP treatment for the transaction will be for Citibank to only have counterparty risk capital for the purchased protection from the SPV. Evan Picoult is evaluating a transaction with similar "basis risk" to determine if and what amount of specific risk capital must be retained by Citibank. If only counterparty capital is included, Citibank would recognize a 4% risk adjusted asset.

Credit Risk Exposure:

Credit Risk Exposure will be to an SPV collateralized with AAA/AA rated asset-backed securities. The CRE will be a function of the tenor of the transaction but could be as high as 100% in most circumstances.

No exposure will be shown on Enron's CA for this transaction.

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The default swap transactions will be booked as standard default swaps in GK. Pricing for both sides of the transaction will be determined by obtaining market bond price data for Enron.

Legal:

Certain Enron liabilities will require legal review of the underlying documentation and opinions to determine their credit seniority.

Outside counsel will be retained and will work with Don Bendernagel if a mandate is awarded.

"Basis Risk":

It is our intention to assume basis risk where we are reasonably certain that the dollar amount of such risk is minimal. We believe that will be the case where we purchase. default protection on Enron bonds and sell default protection on senior unsecured loans. Citibank's experience has generally been that in the event of default, the recovery rates on unsecured loans exceed that of unsecured bonds.

Highly specialized assets will require more scrutiny. We have undertaken a preliminary investigation of synthetic lease transaction (ADP - Asset Defeasance Product). Based conversations with outside counsel and Eli Hassine (see attached email), we are reasonably comfortable that A-Notes of these transactions will trade the same or better than senior unsecured loans:

- The A-Notes are in no worse a position than that of a general creditor
- 2. The notes have a third mortgage interest in the underlying building behind the B-Note and C-Note holders. Combined, these claims are only 15% of the original building value.

 3. These facilities when syndicated usually command spreads similar to that of
- the lessee's senior unsecured loans.
- 4. \$6BLN to \$8BLN of transaction volume is executed per year

Citibank/SSB has shown the client the following pricing:

Up front Structuring and Placement Fees: 1% Ongoing swap spread Basis Risk Cost

EV revenues for the firm will be as much as 1.8% of the notional amount placed.

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Alternative Structure: (Hybrid Structure)

In a variation on the above structure the SPV purchases assets directly from the banks and purchases a default swap wrap from Citibank:

- 1. Investors put cash into the Trust in exchange for Trust Certificates
- 2. The trust purchases assets from the banks (e.g. Synthetic Lease Transactions)
- 3. Trust enters into a Knock-Out Total Return Swap with Citibank

During term of Transaction:

- Under the Knock-out Total Return Swap, Trust pays cash flows received on Trust assets to Citibank in exchange for floating payments (e.g. LIBOR+95bp)
 Trust exchanges floating payments received from Citibank for fixed payments
- under interest rate swap with Enron.

At maturity (no Enron default):

- Synthetic Lease A-Notes mature with principal payments by Euron to the Trust
 Under the Knock-out TRS, Trust pays total return on Trust assets (payment received from Euron) to Citibank and Citibank pays amount equal to the face amount of Trust Certificates to trust
- 3. Trust distributes payment received from Citibank to Trust investors in exchange for Trust Certificates
- 4. Credit Basis Swap terminates without any action taken thereunder

Upon an Enron default:

- 1. Knock-out Total Return Swap terminates
- 2. Trust physically delivers Trust assets to Citibank in exchange for a payment equal to the value of a Reference Obligation of Enron (a publicly traded,
- senior, unsecured obligation)

 3. Citibank's payment obligation may be satisfied by a payment in cash or, if it so elects, delivery of Reference Obligations with a face amount equal to the face amount of the Trust assets

In our original proposal Enron would provide Citibank with a hedgeon the basis risk by way of a collaterized swap. Enron has asked that we indicate our ability to execute this transaction without the basis risk hedge. As such, several issues remain outstanding in this structure:

Booking:

- The trading desk is writing an "unhedged" contingent total return swap for up to 5 to 7 years. This would likely require an MRPC exception.
- Can the transaction be booked in a fashion similar to the proposed transaction that would not result in any P&L swings.

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Banks:

 Will the banks be comfortable taking a hit to there P&L if they have to sell the asset at current market prices

Accounting

1. Can the SPV remain unconsolidated with Citibank

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4/6/99

Schooley, Brooke D

Sent

Keller, James Tuesday, August 24, 1999 5:16 PM

Schooley, Brooke D

To: Subject:

Rating Agency Discussions

Brooke:

To bring you up to date I am attaching the correspondence we have sent so far to Moody's and S&P. The memo below went to Gerry Gluck at Moody's and the Summary went to both Moody's and S&P.

Gerry:

As we discussed yesterday, we believe that in assessing our proposed credit linked note structure the likelihood that the Company fails to pay on an obligation in the trust is a key point. However, we believe that the proposed transaction is structured to ensure that investors bear identical risks to assurance? bondholders.

Likelihood of default

- Each obligation in the trust will be of material size. Therefore, a default will be a material event
 to the Company. We believe that it is unlikely that the Company would choose to selectively
 default on a material obligation.
- All obligations in the trust will be bank financings.
- All obligations can be characterized as general claims on the Company. We are prepared to have a reputable law firm opine that the obligations in the trust are payment obligations of the Company not contingent on the performance of other parties and would in a bankruptcy of the Company rank pari passu with other general unsecured claims of the Company.
- You raised the question of the *probability* of default on trust assets versus other claims. It is not clear whether any company would sconer default on bank financings versus public debt. Intuitively it seems the reverse should be true. To take the argument to an extreme one could argue that one series of public bonds is more susceptible to default than another based on issue size, coupon, or maturity. To the best of our knowledge analysts do not differentiate among bonds based on these factors. Thus, we believe general claims are general claims and it is impossible to distinguish any difference in the probability of default among them.
 - The Company's bond indenture does not have a cross default provision across series. Therefore, the Company may default on one series without regard to any other series. However, all of the Company's serial bonds are rated the same.

Failure to pay without bankruptcy

Page 1

nent Subcommittee on Investigation EXHIBIT #189d

Although we consider it unlikely that the Company would default on an obligation in the Although we consider it unlikely that the Company would default on an obligation in the trust without causing the Company to be forced into bankruptcy, we have taken steps to protect investors from this risk. Specifically, Citibank will sue on behalf of the trust for payment of the trust's claim. Generally, Citibank will pay to the trust any difference between the value of any nonappealable final judgment rendered by a competent court and the face amount of the Company obligation held by the trust. In the extreme case, should a court hold that the value of the Company obligation is zero, Citibank would be obligated to pay 100 cents on the dollar to the trust.

Bankruptcy

If the Company were to go into bankruptcy and the bankruptcy court determined that the
obligations held by the trust are worth less than certain publicly traded reference bonds of the
Company, Citibank would again make up the difference between the value of the Company
obligation held by the trust and the value of the reference bonds. We may settle in cash or
remove the trust obligation and replace it with a reference bond.

In summary, SSB believes that the proposed credit linked note structure creates a security that has risks identical to the risks borne by holders of the Company's public bonds, and therefore should have the same rating as the Company.

We look forward to continuing this discussion. Again, thanks for your time in working through the issues on this proposed structure.



Page 2

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Transaction Memorandum Project Yosemite \${1.0} Billion Credit Default Swap Structure Referencing Enron Corp.

Client Need:

Enron Corp. ("Enron"), a Target Market customer, engages on a regular basis in highly structured financings ("Enron Structured Debt") with a select group of banks. These transactions provide significant value to Enron in that it can finance capital needs while maintaining favorable accounting and rating agency treatment. In planning its capital needs, Enron has become increasingly sensitive that its ability to continue executing these transactions is constrained by limited bank credit capacity. The purpose of the Yosemite transaction is to enable Enron to create additional credit capacity for itself in the bank market by shifting Enron credit risk from the bank market to the capital markets without affecting existing rating agency and accounting treatment of the Enron Structured Debt.

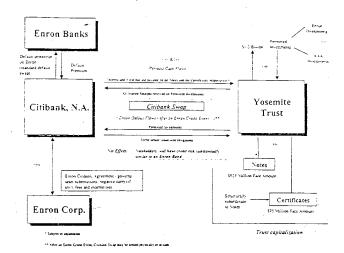
Citigroup Solution:

The Yosemite structure is designed to free up Euron credit capacity at Euron's key banks (the "Euron Banks"). Yosemite is a trust structure that raises funds in the capital markets to:

- (i) purchase Enron Structured Debt from the Enron Banks; and
- (ii) purchase certain AAA Investments that will act as the collateral for the benefit of Citibank under default swaps referencing Euron written by Yosemite to Citibank (Citibank will, in rum, offer default protection to selected Euron Banks).

Permanent Subcommittee on Investigations
EXHIBIT #189e

Diagram and Mechanics:



- (i) Yosemite will raise approximately \$800 million to \$1 billion of funds by issuing (i) \$725 925 million of Notes and (ii) \$75 million of Certificates. The Notes will mature in 5 and 7 years. The Certificates will be subordinate in right of payment to the Notes.
- (ii) The proceeds from the issuance of the Notes and the Certificates will be used to purchase Permitted Investments, consisting of AAA Investments and Enron Structured Debt, Enron Structured Debt will include payment obligations supported, in whole or in part, directly or indirectly, by Enron.
- (iii) The Permitted Investments may be changed over time provided that both Enron and Citibank agree to any substitution. Citibank will select all AAA Investments.
- (iv) Citibank and the Trust will enter into the "Citibank Swap" which will provide the following (as long as an Enron bankruptcy has not occurred): (a) all interest on Permitted Investments received by the Trust will be paid to Citibank; and (b) Citibank will pay to the Trust the coupon payment on the Notes and yield payment on the Certificates on each interest payment date.
- (v) The Citibank Swap will also function as a credit default swap in which Citibank will protect the Trust if, in an Enron bankruptcy, the Enron Structured Debt recovers less than Enron Bonds.

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(vi) Enron and Citibank will enter into the "Enron Agreement" which will govern asset substitutions and will contain certain periodic payments which have the effect of converting any fixed cashflows to floating. The Enron Agreement requires that both Enron and Citibank approve any asset substitutions (i.e., Enron is unable to place assets in the Trust without Citibank's prior consent).

Risks to Citibank under the Citibank Swap:

The Citibank Swap is designed to insulate the Noteholders from any risk that Enron Structured Debt held by the Trust results in greater exposure to Enron than would an Enron Bond. Essentially, in the event of a Bankruptey of Enron, the Citibank Swap will protect Noteholds from any diminution in value of the Enron Structured Debt held by the Trust that would not be present if the Trust were holding an equivalent principal amount of Enron Bonds. (Any excess value would be paid by the Trust to Citibank under the Citibank Swap.)

Accordingly, Cribank is exposed to a risk that the recovery on Enron Structured Debt is less than that on Enron Bonds (i.e., Citibank takes basis risk on recoveries in the event of an Enron bankruptey). Under the Enron Agreement, Citibank and Enron must jointly approve any assess substitution and the price Citibank receives for assuming any basis risk between the new Enron Structured Debt and Enron Bonds. Derivatives will maintain, as part of the Credit Derivatives Product Program, a process for evaluating and approving any basis risk on Enron Structured Debt. Such process will be completed prior to any proposed substitution.

In addition, if Citibank has written default swaps to Enron Banks, the hedge provided by the Yosemite Trust will be secured only to the extent of the value of the AAA Investments held by the Trust. Any losses on the AAA Investments will result in a diminution in the value of Citibank's collateral. However, this risk is viewed as remote.

Upon a bankruptey of Enron, Citibank will satisfy its obligation under the swap by either: (a) delivering to the Trust senior unsecured obligations of Enron in exchange for a like face amount of Permitted Investments; or (b) paying to the Trust any deficiency between the recovery value of senior, unsecured obligations of Enron and the recovery value of the Enron Structured Debt. both determined at the conclusion of the bankruptey proceedings.

Initial Enron Structured Debt:

It is expected that the Enron Structured Debt will consist of a (i) \$800 million prepaid oil derivatives transaction (the "Prepaid"), (ii) an adjustable note (the "Negative Carry Note") designed to pick up any negative carry between (a) the Note coupons and Certificate yield and (b) the yield on the Trust's assets.

Prepaid: Please see attached Yosemite Funded Prepaid Description for a diagram of the structure. Basis risk between derivatives' claims under the Prepaid and senior unsecured claims have been analyzed both by internal counsel and by Milbank. Both internal and external counsel believe that the risk of a difference in the recovery rates of the \$800MM prepaid and \$800MM of bonds is remote.

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Adjustable Note: Enron has agreed to include among the Permitted Investments an adjustable note. The adjustable note will be designed to pay any negative carry that exists between the other Permitted Investments and the Note Interest and Certificate Yield. Under the Enron Agreement between Citibank and Egron. Enron agrees to reimburse Citibank for any negative carry. The adjustable note is also designed to insulate Citibank from Enron Failure to Pay risk and by its terms will protect the Trust from defaults under other Enron Investments by adjusting its payment streams so that it picks up any missed payments (essentially, the note acts as a first loss cushion).

Equity Investment:

Please see attached Yosemite Equity Investment memo.

Credit Exposure:

The transaction will create approximately \$37.5 million of additional credit exposure comprised of the \$37.5 million due to the indirect purchase of the Trust Certificates. This exposure will not be equivalent to a loan exposure as Citigroup will not have a direct claim to Enron; however, this exposure will be hedged by the operation of the Citibank Swap as described above.

Please note that execution of this transaction will enable Enron to repay approximately \$400 million of prepaids currently on the Citibank CA .

Expected Revenues:

Although pieces of the transaction are continuing to evolve, expected revenues equal approximately the following:

Deal Size	\$1.0 billion	S800 million
Assets	Prepaid, AAA Investments	Prepaid
Note Issuance	\$462.5 million each of 5 and 7 year maturities	\$362.5 million each of 5 and 7 year maturities
SSB Bond Fees	\$5.0 MM	53.7 MM
Prepaid Fees	11.3 MM	11.3 MM
Yosemite Equity	4.6 MM	4.4 MM -
Default Swap Fees / LIBOR earnings	2.1 MM	0
Total	\$23.0 MM	\$19.4 MM

Accounting Implications:

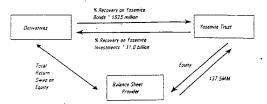
Accounting Policy has indicated that the Trust will not be consolidated with Citibank as Enron will own 50% of the Trust equity and is the primary beneficiary of the Trust, Citibank does not have a direct, funded ownership interest in the Trust and Citibank will not have decision-making authority with respect to the Trust. In addition, for Risk Based Capital purposes, the Citibank Swap will function as offsetting purchased and sold default protection on Enron.

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Yosemite Equity Investment

Overview

Project Yosemite's Trust requires \$75 MM of equity. It is contemplated that Enron will provide \$37 5MM directly to the Trust, and that Citigroup, through Salomon, will synthetically provide \$37 5MM. For Citigroup's portion, a balance sheet provider will invest \$37.5MM and enter into a total return swap on the equity with Salomon. Consequently, the balance sheet provider is exposed to Salomon risk only, and Salomon assumes the equity exposure.



The equity in Yosemite absorbs any losses in the Trust before the Notes; accordingly, the recovery on the equity is zero if recovery in bankruptcy on Enron bonds is below 92.5 cents / dollar - a likely occurrence. Citigroup hedges its exposure to the equity through the Yosemite Swaps that Citibank buys and sells to the vehicle. The Yosemite Swaps are structured so that the net of swap payments and equity loss in the event of an Enron bankruptcy has recovery characteristics superior to those of a standard plain vanilla loan for Citigroup as an institution.

Windfall/(Loss) on Swap and Equity	(\$22.50)	(\$15.00)	\$0.00	\$11.25	\$18.75
Loss on Equity	(\$37.50)	(\$37.50)	(\$37.50)	(\$37.50)	(\$37.50)
Net Swap Payment to Citi/(from Citi)	\$15.00	\$22.50	\$37.50	\$48.75	\$56.25
Swap Payment by Trust -	\$200.00	\$300.00	\$500.00	\$650.00	\$750.00
Swap Payment by Citibank	\$185.00	\$277.50	\$462.50	\$601.25	\$693.75
Funds Flow at Bankruptcy	,				
Bonds	20%	30%	50%	65%	75%
Enron Investments	20%	30%	50%	65%	75%
Recovery Rates					
Citi Equity Investment	\$37.5				
Swap Notional Trust Payments	\$1,000				
Swap Notional Citibank Payments	\$925				
Total Equity	\$75				
Notes	\$925				
Assumptions					
Calculations					

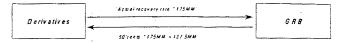
Note that Citgroup's exposure is superior to that of a standard loan, as the institution only experiences a

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loss if recovery is below 50 cents/ dollar. If recovery is greater than 50 cents/dollar, the institution receives a windfall payment from the Trust.

Booking Mechanics

It is contemplated that Citizank GRB will book the equity exposure as \$37.5MM of 7-year Company Yosemite exposure, and that Citizank GRB and Citizank Credit Derivatives will enter into a "Recovery Company Yosemite exposure". Rate Swap" in order to modify the GRB's equity recovery value to achieve the favorable economics outlined above. Under the swap, GRB will pay Derivatives a fixed recovery rate of 50 cents/dollar in exchange for receiving the actual recovery rate/dollar on a \$75MM notional amount. The swap will be settled at the earlier of the end of Enron's bankruptcy proceedings or 7 years



Returns

Citgroup will receive approximately LIBOR + 5.00% on its \$37.5MM exposure. •

Summary of Position

Salomon has total return swap on \$37.5MM of equity. Citibank GRB and Citibank Derivatives execute the Recovery Rate Swap. In combination, Citbank GRB takes \$37.5MM of credit exposure to Company Yosemite, with a superior return and recovery position to straight Enron debt. This superior return is possible because of an overcollateralization: i.e. payments made by Citibank.will relate to the Noteholder's 92.5% interest in the Yosemite Trust Assets, whereas Citibank will receive a payment on 100% of the Yosemite Trust Assets.

CITI-SPSI 0003014



Interoffice Memo

DATE: October 26, 1999

TO: Fred Chapey, Eleanor Wagner

FROM: Lynn Feintech, Adam Kulick, Rick Caplan

RE: Follow-up to Yosemite CMAC meeting

The purpose of this memo is to inform you of the completion of the followup items that the CMAC requested at the September 22 meeting. Below are excerpts from the meeting's minutes that describe the follow-up items and the actions that have been taken to complete them.

 Define procedures for performing due diligence on proposed asset additions/substitutions to Permitted Investments held in the Trust. Procedures should include: ensuring that the underlying documents on the asset are in order, securing all necessary approvals internally (Credit Derivatives, Capital Markets Credit, Market Risk Management, Legal) and obtaining memos/opinions from outside counsel for each proposed asset. (Tom Francois, Rick Caplan, Adam Kulick)

Basis risk associated with any additional Enron-related assets to be purchased by Yosemite will be analyzed by the Credit Derivatives Business in conjunction with the Risk Management and Legal groups. Such analysis will focus on the structural aspects of the proposed asset, especially the nature of the Enron support. The ultimate purpose of the analysis will be to assess the chances that a claim related to the asset could be treated differently than a claim on a generic senior-unsecured Enron debt obligation in a Bankruptcy proceeding related to Enron. External legal counsel will be retained to assist in this analysis and a legal opinion or memorandum from such counsel will be obtained on any asset.

Approvals for any new asset will be required from:
The Head of Credit Derivatives Trading (currently Doug Warren)
The Head of Credit Trading (currently Geoff Coley).
The Head of Derivatives Client Risk Management (currently Eleanor Wagner)
The Head of Market Risk Management (currently David Bushnell)
The Head of Capital Markets Legal (currently Marcy Engel)
The Head of Global Energy (currently Bill Fox)

Quantify additional credit risk to Company Yosemite that may arise from differences in cash flows, e.g., fixed vs. floating, and mismatches in timing

Permanent Subcommittee on Investigation
EXHIBIT #189f



between the cash flows received by Citibank from Permitted Investments and Citibank's cash flow obligations on the Notes and Certificates. Secure the necessary Credit approvals. (Tom Francois, Rick Caplan, Adam Kulick)

There is no incremental risk and therefore no need for credit approval. The Trust will hold as an asset an Enron note with a variable coupon that will be defined to cover the negative carry in the transaction.

 Finalize with client the terms of the Yosemite agreement in the event that Company Yosemite fails to pay on Yosemite investments outside of bankruptcy (Rick Caplan, Adam Kulick)

Failure to pay risk is mitigated by the existence of an adjustable rate note that Yosemite will purchase directly from Enron. This note is designed to pay interest at a rate that makes up for any deficiency between the scheduled interest receipts on Yosemite's assets and the coupons on the notes and certificates Yosemite is issuing. This note would pick up any "negative carry" between the yield on Yosemite's assets/liabilities. This note would not, however, pick up any failure by a debtor of Yosemite to make any normally scheduled interest payments.

Under the Citibank/Yosemite swap, Yosemite pays Citi its actual interest receipts and Citi pays Yosemite the coupons due on Yosemite's notes and certificates. Following a publicly noticed Enron Failure to Pay, Citi can reduce the amount of its periodic swap payments by the amount of any unpaid interest Yosemite was to receive directly from Enron. Citi can also deliver to Yosemite direct Enron obligations in exchange for indirect Enron obligations following an Enron Failure to Pay. In the event of a failure to pay on the Prepaid, the swap receivable that the vehicle that issued the Prepaid would hold (a direct Enron Obligation arising out of termination of the prepaid oil forward) would be assigned to Yosemite in exchange for the note the Prepaid vehicle had originally issued to Yosemite. The swap receivable would bear a contractual interest rate. Hence, there would be interest amounts directly owing to Yosemite by Enron which, if not paid, would serve to reduce Citibank's obligation to pay Yosemite's required coupons. The interest on the swap receivable would be set at a level to insure that Citibank would not have any net payment obligation to Yosemite with respect to ongoing interest on Yosemite's obligations.

 Present the deal to the Commitment Committee for review and approval. In preparation, describe the functions and risks of each swap. (Rick Caplan, Adam Kulick)

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SALOMON SMITH BARNEY

The Commitment Committee meeting is scheduled for Monday, October 25th. The memo describing the functions and risks of each swap will be included in the Commitment Committee memo.

 Present the "Firefly" transaction, including proposed modifications, to CMAC for review and approval (Rick Caplan, Adam Kulick)

The Trust will not hold Firefly as an asset at closing.

 Secure approval from the GRB Control Unit and Relationship Manager for Company Yosemite for the Equity piece of the transaction (Rick Caplan, Adam Kulick)

Briefing presentations have been made to the GRB credit approval chain. Actual credit approval is currently being sought.

 Address and resolve remaining issues on documentation pertaining to the Citibank swap, Yosemite agreement and the Equity piece (Don Bendernagel, Rick Caplan, Adam Kulick)

Swap and equity have been agreed to in principle. Documentation revisions will continue until closing.

 Address and resolve outstanding regulatory and accounting issues with respect to the structure and Equity investment (Saul Bernstein, Don Bendemagel, Rick Caplan, Adam Kulick)

Accounting Policy and Regulatory has approved the transaction and Salomon Smith Barney's synthetic investment in the equity of the Yosemite

9. Ensure Operations has current capability to book and process all the legs of this complex transaction (Rich Tantone, Rick Caplan, Adam Kulick). Subsequent to the CMAC meeting, Rich Tantone met with Rick Caplan, who will prepare a list and explanation of all components of the deal that need to be booked.

Operations has been provided with alisting of all transactions to be booked. Operations has indicated that they will be able to book each leg of the transaction.

10. Analyze additional ongoing maintenance costs (ex. Legal Department, outside counsel, Operations) associated with this deal (Rick Caplan, Adam Kulick in conjunction with appropriate functions).

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CITI-SPSI 0003045

SALOMON SMITH BARNEY Amember of arbigroup?

Enron will pay costs of outside counsel for any review of new assets.

CITI-SPSI 0003046

Yosemite Securities Trust I Linked Enron Obligations (LEOsSM)

Frequently Asked Questions

- Q: What is the basic idea behind Yosemite?
- A: The broad theme is to find the best home for different risks. As noted in The Wall Street Journal on 10/27/99, banks are increasingly reluctant to take on long dated credit risk (i.e. generally a 3-year limit), although they maintain a competitive advantage in structured finance. Yosemite allows Erron to take advantage of the flexibility provided by banks in structuring complex financings while placing pure long dated credit risk in the capital markets.
- Q: Why does Yosemite make economic sense?
- A: Structuring risk is most efficiently priced in the bank market. Pure credit risk is most efficiently priced in the capital markets. The Yosemite structure allows Citigroup to place pure Euron credit risk in the bond market while keeping the structural risks in the bank market.
- Q: Why is Enron doing this?
- A: To take advantage of banks' structuring expertise while broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); Yosemite will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings.
- Q: Is Enron running out of bank lines?
- A: Enron has substantially reduced its dependence on bank financing over the last year (over \$4 billion in freed up capacity). Enron believes that it has excellent liquidity in and access to the bank market. Yösemite provides Enron with another avenue through which to source funds and expand its sources of capital.
- Q: How does this transaction affect Enron financial statements?
- A: All assets of the Trust are already reflected in Enron's financials or will be at the time they are created. Examples of potential Enron Investments include bank loans, credit facilities, contingent guarantees, financing leases and structured commodity swaps.

Permanent Subcommittee on Investigations
EXHIBIT #189g

- Q: What is Citigroup's interest?
- A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this relationship, and Yosemite allows Citigroup to continue executing sophisticated financings with Enron while managing its credit exposure. In addition, Yosemite provides Citigroup a vehicle through which it can expand its penetration in the credit derivatives market.
- Q: What are the benefits to investors?
- A: Investors receive a premium for taking Enron credit in a structured form. The size of the offering and SSB's market-making commitment should combine to ensure adequate liquidity.
- Q: What kind of assets can Yosemite hold?
- A: Yosemite is a black box, but assets are limited to direct or indirect obligations of Enron and certain high credit quality investments (U.S. governments, AAA/Aaa or A1+/P1 CP).
- Q: What are investors' risks to Enron?
- A: LEOs are designed to mimic the risk profile of Enron senior unsecured obligations that rank the same as Enron bonds. In an Enron bankruptcy, the structure is designed to give Yosemite investors the same recovery as senior bondholders. Following any other payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.
- Q: What are investors' risks to Citibank?
- A: Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank receives all payments from Yosemite assets and is obligated to make each Yosemite coupon payment. In addition, Citibank is obligated to ensure that in any default situation involving Enron or the Enron assets held by Yosemite that investors take risk only to senior unsecured obligations of Enron.
- O: Do investors' have other risks?
- A: Yosemite may invest in AAA/Aaa term assets or A1+/P1 CP (provided the CP issuer's long term rating is AA-/Aa3 or better). Investors bear default risk of but not price risk to these securities.
- Q: Can Yosemite be replicated?

- A: Yosemite I is the beginning of a program of trades for Enron. Citigroup believes the technology will be beneficial to other capital users.
- Q: Who will own the Certificates?
- A: Each of Enron and Citigroup will, directly or indirectly, own 50% of the Certificates. Neither will be able to modify the structure without Noteholder consent.

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Moody's Investors Service

99 Church Street New York, New York 10007

November 18, 1999

Yosemite Securities Trust I (the "Issuer") c/o Wilmington Trust Company Rodney Square North 1100 North Market Street Wilmington, Delaware 19800

4e: \$750,000,000 8.25% Series 1999-A Linked Enron Obligations due 2004 (the "Linked Enron Obligations")

Ladies and Gentlement

At your request, Moody's Investors Service has reviewed for rating purposes the information submitted in connection with the above-captioned issuance. We understand that this information was submitted in substantially final form.

Based on the information submitted, Moody's Corporate Rating Committee has assigned a rating of Bas2 to the Linked Euron Obligations. The rating reflects the credit quality of the Enron Corporation ("Euron"), as well as the effectiveness of the documentation and of the structure in conveying this credit quality to investors. In addition, the rating incorporates the financial strength and additional risk presented by the swap agreement with Citibank, N.A. ("Citibank"). The rating of the Linked Enron Obligations will change with the ratings of the Enron and Citibank.

The rating will be monitored and is subject to reconsideration at Moody's sole discretion. The ratings are contingent upon receipt of all executed documents in form satisfactory to Moody's within thirty (30) days of this letter. Please send all documentation and notices to Moody's Investors Service, 99 Church Street, New York, New York 10007, Atm: Structured Derivative Products.

Thank you for your interest in our services.

Sincerety

Isaac Efrat

Sloan Walker

Permanent Subcommittee on Investigations
EXHIBIT #189h

Structured Finance Ratings

55 Water Street New York, NY 10041-0003 Telephone 212-438-2000

Standard & Poor's
A Disson of The McGreen Hill Compound

November 18, 1999

Mr. Richard Caplan Salomon Smith Barney Inc. 390 Greenwich Street New York, NY 10013

Re: Yosemite Securities Trust I

5 750,000,000 8.25% Series 1999-A Linked Euron Obligations (LEOs) due
November 15, 2004

Dear Mr. Caplan:

Pursuant to your request for a rating on the above issue, we have reviewed the information presented to us and have assigned the rating of "BBB+" to the notes. If you have any questions relative to this rating, we will be pleased to answer them.

We will maintain continuous rating surveillance until the above-named notes mature or are otherwise retired. In order to maintain our rating surveillance, we must receive all reports submitted to the fiscal agent in regard to the above-captioned issue, the absence of which may result in the withdrawal of our rating. Standard & Poor's relies on the issuer and its counsel, accountants and other experts for the accuracy and completeness of the information submitted in connection with the rating. Please address all reports to: Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041-0003, Atm: Asset-Backed Surveillance Group.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. You understand that Standard & Poor's has not consented to, and will not consent to, being named an "expert" under the Federal securities laws, including without limitation, Section 7 of the Securities Act of 1933. In addition it should be understood that the rating is not a "market" rating nor a recommendation to buy, hold, or sell the notes.

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Standard & Poor's reserves the right to advise its own clients, subscribers, and the public of the rating.

We are pleased to have had the opportunity of being of service to you. Our bill for the analytical work performed on these securities will be sent to you within one month. If we can be of further help, please do not hesitate to call upon us.

Very truly yours,

Joseph F. Sheridan Managing Director

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FAY X 8510

Bernstein, Saul
From: Bernstein, Saul
Sent: Wednesday, November 03, 1999 1:10 PM
To: Captan, Rick SSB.; Kulick, Adam SSB.
Cc: Bergen, Linda; Mackey, William J.; 'Bozarth, William T.', 'Langer, John D. SSB.; Battline, Frederick; Battline, Frederick; Mackey, William J.; Bergen, Linda; Langer, John D. SSB.; Bozarth, William T. SSB.

Subject: RE: RE: Project Yosemite

Rick/Adam, I spoke with Fred and stated that I believe the client understands the accounting risk and that it is their argument to lose. That Enron would argue that they do not control on a risk/reward basis, and that Citibank would argue the same. Yosemite Trust would be another orphan SPV. Fred understands that the transaction is presently being priced in the market. We agreed that the transaction can proceed.

Regards, Saul

Subject: RE: Project Yosemite

Saul,

You and the others have spent more time on this than I have, but if we have structured a transaction to help a client avoid consolidation, how can we turn around and take the position that they should be consolidating?

I'm not suggesting that we are responsible for their accounting, but I am afraid that if we ever had to defend this we would either (a) embarrass the client or (b) lose the accounting argument.

Regards, Fred

__ Forward Header

Subject: RE: Project Yosemite Author: Saul Bernstein at 20USNYC Date: 11/03/1999 10:55 AM

Fred, the initial form of this transaction had Citibank as a 50% funded equity partner with Enron. My understanding is that Enron was taking the position that they would therefore not have control and be able to avoid consolidation. I advised the business that we should not have a funded equity position. Per D-14, real equity are those investments which are funded and at risk for the full life of the SPV. Also, it is unusual to consolidate an SPV solely on the

basis of writing a derivative.
Further, the business committed to have Enron holding an equity interest of at least three to five percent (with the total equity of Yosemite Trust being in

Permanent Subcommittee on Investigation

EXHIBIT #189j

the range of six to ten percent). It is our view that Enron should consolidate the range of six to ten percent). It is our view that Enron should consolidate the Trust (implied by the accounting rational documented in my memorandum which supports non-consolidation by Citibank), but GCIB Accounting Advisory nor the Business does not advise a customer regarding its accounting. We tell them to consult their internal accounting folks or external auditors. This is the customer's accounting risk to accept or reject. It has not been my experience that "we assure ourselves that the client accepts our view" regarding what we believe their accounting should be. This would be a new operating standard and business requirement, the competitive impact of which must be carefully considered. Please note the all transactions are approved from an appropriateness and suitability aspect. approved from an appropriateness and suitability aspect.

Please also note, regarding our own accounting, this transaction was reviewed by Bill Bozarth, John Langer and Linda Bergen. We all got comfortable with not consolidating the Yosemite Trust, although we all share your concern.

Regards, Saul ---Original Message----From: Battline, Frederick Sent Wednesday, November 03, 1999 9:49 AM To: Bernstein, Saul Cc: Bergen, Linda; Mackey, William J. Subject: Project Yosemite

Saul.

I have reviewed the memo, and I am concerned with the consolidation of the Yosemite Trust in view of the way that the equity ownership is

EITF Topic D-14 says that one of the conditions to avoid consolidation is that the majority owner of the trust must be an independent third party who has made a substantive capital investment. I don't see how this condition is being met in the current structure. The client is not independent, and the third party investor is protected by the total return swap provided by SSB (who as part of Citigroup is also not independent from the rest of the transaction).

If it is our view that the client should be consolidating the trust, we need to be sure that the client accepts this view. We are not we need to be sure that the client accepts this view. We are not responsible for the client's accounting, but since we are advising on the transaction it could be rather embarrassing if Citigroup's accounting position relied on a view that is contrary to our client's interest. In this transaction the client may be indifferent to consolidating the trust, since the obligations are on its balance sheet in one form or another. But if this is the case, why not have the client provide (a) all of the equity in the trust or (b) the total

Regards, Fred

Forward Header

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Subject: Project Yosemile Author: Saul Bernstein at 20USNYC Date: 10/29/1999 10:54 AM

Rick/Adam, as you know, I have sent my approval to the CMAC. The attached file documents the approval. Good luck on the marketing. I understand the closing is expected prior to November month-end. Please keep Eric and Alan in the loop.

Regards, Saul << File: MAPI-1 Distribution List.TXT >> << File: enronder.DOC >> << File: MAPI-1 Distribution List.TXT >>

CITI-SPSI 0040633

Troxell-Winter, Aracy [CRRM]

From: Sent: To: Co:

Joseph Mackiewicz Monday, November 08, 1999 1:44 PM Joseph Faint James Murray; Aracy Troxell; Steffen Lunde; Bran Raskovic; Joseph Mackiewicz Ernon - Vanous

Subject:

Here's the latest:

1. New Deals:

- a. Yosemite: Capital markets deal priced last week (ST+2.375%) with funding expected on or about 11/18. A portion of the proceeds will be used to repay our Project Rooseveltiolita). Joe F---please lisise with Enron and Steve Baillie at Citl Houston to make sure Roosevelt is repaid before the existing approval expires.
- b. Nahanie: New \$500MM Conduit-funded Capital Structuring deal in the works with closing expected some time in December. Bran is handling the Securitization leg of this one.
- c. JEDI-II: Citi Houston has advised Enron that they cannot approve the necessary exposure on this \$500MM year-end deal, mainly because of Nahanie, and have taken a pass.

- a. Roosevelt: Joe F---please liaise with your Enron contacts and Steve Baillie at Citi Houston to make sure Roosevelt is repaid before our credit approval expires. Please also liaise with Bryan in Harrison regarding the cash inflow.
- c. JT Roldings: The remaining Conduit outstandings for this deal will be repaid soon. Joe F---please liaise with Enron, Steve and Bryan regarding timing.
- c. Coal Capital: Citi Houston has told Enron that the syndicate banks want a CF of 30 bps p.a. for the next 364 days. The client is considering and will be back to us this week, possibly this afternoon.

Recards, Joe

Permanent Subcommittee on Investigation EXHIBIT #189k

Ruding, H-Onno

From:

Sent: o: Jc: Subject:

Ruding, H-Onno Wednesday, November 10, 1999 5:17 PM Reilly, James F. Baillie, Steve: Stort, Thomas Rhodes, William, Carpenter, Mike A., Sabatacakis, Petros; Macdonald, Alan S., Fox, William Enron Credit

Reference the attached CM. I approved today the requested \$50 million hold position for the new \$375 million backstop facility. As we all know, our overall exposure (both "total facilities" and "total O/S and UC") to Enron is huge. As your note has outlined, the efforts to reduce our exposure to "normat" are well on track particularly through the Yosenite Bond financing, the funds of which are expected to come in on November 18. Until the moment that we have received the debt repayment resulting from the Yosenite transaction, I am not willing to approve another incremental exposure on Enron, this obviously should apply to SSB as well. Once we have received the pay down of our facilities to a level of about \$600 million or less, I think that we can look at any incremental exposure in a more flexible way.

We have delivered an approval package to you this afternoon. Enron Funding Corp. ("EFC"), a subsidiary of Enron Corp., is establishing a \$375MM, 364-day RC to backstop a new \$500MM CP program. All EFC obligations will be guaranteed by Enron Corp. The EFC program will be rated A1/P1 on the strength of a credit "wrap" provided by two insurance companies, AAA and Winterthur, each rated AA (we will carry this exposure as Enron credit, not the insurance companies, given the reluctance of Global Insurance to signorf on deals of this type). Via this transaction, Enron hopes to secure a hold on liquidity from the more stable A1/P1 CP market. The purpose of the new program is to expand availability and liquidity for Enron Corp. We are requesting approval for a \$50MM co-arranger position. In addition, we expect that SSB will be added as a dealer on both this new program as well as the established \$2.58 A2/P2 program of Enron Corp.

established \$2.59 ADP2 program of Enrol Carp.

The CA will show Total Facilities of \$1.139MM and an Obligor Exception of \$355MM. These numbers do not reflect the anticipated paydown of exposure following the completion of the Yosemite bond financing. Last Thursday, Yosemite profice, raising nearly \$330MM (\$755MM in bonds and \$75MM in equity) which will be channeled to retire out Truncal (exposure of \$400MM) and Roceseveft (exposure of \$130MM) prepaid oil transactions. The Yosemite funds will be delivered on \$17/18 - paydown of our facilities will come simultaneously or shortly thereafter. As a result, Total Facilities will reduce to roughly \$300MM and the Obligor Exception will be eliminated. Beyond these paydowns, we have the insurance "wrap" on this deal, \$120MM of credit derivatives, and roughly \$3040MM of LOs in our favor (as margin for commodity hedging transactions) which further reduce our effective Enron exposure.

My apologies for the timing. We are asking for your approval by close of business Wednesday, 11/10. The rush arises as we held up the package until after the Yosemite roadshow/pricing of last week.

Permanent Subcommittee on Investigations

EXHIBIT #1891

ENRON DEBT SECURITY [Series 1999-A]

U.S. \$25,000,000.00

November 18, 1999

Reference is made to that certain Collateral Security Agreement, of even date herewith among Yosemite Securities Trust I, a Delaware statutory business trust, Citibank, N.A., as swap counterparty, and United States Trust Company of New York in four separate capacities as indenture trustee, collateral agent acount bank, and security statute medium (so ahany time hereafter amended, restated or otherwise modified, the Collateral Security Agreement). Each term used in this instrument (this "Debt Security") shall have the meaning ascribed to it in Appendix A to the Collateral Security Agreement and the Principles of Interpretation set forth in Appendix A. This Debt Security evidences a senior unsecured general obligation for borrowed morey of Enron, is an instrument aggregating \$25,000,000,000 in pencipal amount, is being issued by Enron to the Trust on the date set forth above at par, and is an Enron Investment related to the Series 1999-A Notes. Enron acknowledges that the Trust intends to grant a Security Interest in the Trust's rights hereunder to the Collateral Agent pursuant to the Collateral Security Agreement relating thereto.

For value received, Enron hereby promises to pay to the order of the Trust the principal sum of TWENTY-FIVE MILLION U.S. DOLLARS (U.S. \$25,000,000.00) as provided herein, and to pay interest on this Debt Security from the date hereof until the principal amount of this Debt Security is paid in full on each interest payment date specified below in an amount equal to the amount, if any, by which (i) the aggregate Citibank Fixed Payments in respect of the Series 1999-A Notes payable for any particular Calculation Period that ends during the Relevant Period (as defined below) exceed (ii) the aggregate Scheduled Interest Receipts from the Series 1999-A Trust Investments (other than this Debt Security) for such Calculation Period, subject to the further payment at maturity of this Debt Security as described below. The "Relevant Period" for any particular interest payment date hereunder means the period (a) commencing on or after such interest payment date, and (b) ending on or prior to the date immediately preceding the next succeeding interest payment date hereander.

Interest is due and payable semi-annually, at 1:00 a.m., New York City time, on each April 20 and October 20 of each year, commencing April 20, 7000; provided that if any such April 20 or October 20 is not a Business Play the interest payment date hereunder shall be the Business Day immediately preceding such April 20 or October 20, as applicable.

Except as otherwise provided below, the payment of the principal of this Debt Security shall be made by Enron on, but not before November 8, 2004.

If this Debt Security has not been repaid prior to the maturity date hereof, then on the maturity date, in addition to the payment of principal and interest otherwise payable hereunder. Enron shall also pay an amount equal to the product of (x) the then outstanding principal balance of the Series 1999-A Notes, multiplied by (y) the Citibank Fixed Rate for the Series 1999-A Notes.

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Permanent Subcommittee on Investigations
EXHIBIT #189m

multiplied by (z) the Day Count Fraction for the period from and including the maturity date hereof to but excluding the scheduled Maturity Date of the Series 1999-A Notes.

Until otherwise instructed by the Collateral Agent in writing, amounts payable on account of interest under this Debt Security shall be paid to the Interest Proceeds Account-Series 1999-A, and amounts payable on account of principal under this Debt Security shall be payable to the Principal Proceeds Account-Series 1999-A.

This Debt Security and the indebtedness evidenced hereby shall be binding upon and against Enron without regard to the validity of enterchality of any Transaction Document or any other Trust Investment or any provision the performance of the enforceability of any Transaction Document or any Trust Investment, or any provision contained therein. Enron/unconditionally waives the validity legality, regularity, or enforceability of the Transaction/Documents and the other Trust Investments and Indextying Instruments and any other circumstance whatsoever (with or without notice to for knowledge of the obligors thereunder or Enron) that continues, or might be constructed to constitute, an equitable or legal discharge of Enron with respect to its obligations here under, in harkruptly for in any other instance, except any defense based on full payment of all amounts due hereunder.

The obligations of Enron set forth in this Debt Security shall not be subject to any requirement for the making of any demand or the prior taking of any action against any obligor under any Transaction Document or any other Trust Investment or any other Person before the obligations hereunder may be enforced against Enron and such obligations shall remain in full force and effect without regard to, and shall not be released, discharged, or in any way affected by, any circumstance or condition whatsoever (whether or not Enron shall have knowledge or notice thereof or shall have assented thereto and notwithstanding the fact that no rights were reserved against Enron in connection therewith).

If Enron shall fail to pay any amount due and payable hereunder (and, if such failure is on account of the payment of interest hereunder, such failure shall remain uncured for five (5) days), the Collateral Agent, on behalf of the Trust, shall be entitled to declare the entire unpaid principal amount of this Debt Security, together with all accrued, unpaid interest thereon, immediately due and payable upon writen noise to Enron. Except for such notice of acceleration, Enron waives all demand, presconned for payment, soice of non-payment, protest, notice of protest, notice of intent to accelerate maturity, and an other notice, filling of such and diligence in collecting this Debt Security. Notwithstanding the foregoing, upon an Enron Beachtungty, the principal of, and any unpaid interest on, this Debt Security shall automatically the due and payable immediately, without presentment, demand, protest of other requirements of any kind, all of which are hereby expressly waived by furner.

After acceleration of this Debt Security, all amounts paid hereunder shall be applied first to any past due amounts hereunder, next to any due and unpaid interest hereon, and the balance to the outstanding principal amount hereof.

Enron shall have no obligation or liability with respect to the application by the Collateral Agent of any amounts paid by Enron hereunder.

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CITI-SPSI 0004929

Upon Enron's payment in full, and in accordance with the terms hereof, of all due and unpaid interest and other amounts due under this Debt Security and the entire principal amount hereof. Enron's obligations hereunder shall cease.

THE RIGHTS AND OBLIGATIONS OF ENRON AND THE TRUST IN RESPECT OF THIS DEBT SECURITY SHALL, PURSUANT TO NEW YORK GENERAL OBLIGATIONS LAW SECTION 5-1404, BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

ENRON AND THE TRUST EACH HEREBY IRREVOCABLY WAIVES TO THE FULLEST EXTENT FERMITTED BY LAW ALL RIGHT TO TRIAL BY JURY IN ANY PROCEEDING ARISING OUT OF OR RELATING/DIRECTLY) OR INDIRECTLY TO THIS DEBT SECURITY (WHETHER BASED ON CONTRACT, TORY OR ANY OTHER THEORY). ENRON AND THE TRUST EACH HEREBY (A) CRITELES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED FORESSLY OR OTHERWISE, THAT SUCH FARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE TOREGOING WAIVEN AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ISSUE AND ACCEPT THIS DEBT SECURITY BY, AND GOTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS PARAGRAPH.

This Debt Security may not be amended except by an instrument in writing signed by each of Enron and the Trust. This Debt Security shall be binding upon and inure to the benefit of Enron and the Trust and their respective successors and permitted assigns. Enron shall not assign or otherwise transfer any of its rights or obligations under this Debt Security without the prior consent of the Trust. The Trust may, at any time and from time to time, without the consent of Enron, assign all or any portion of its rights under this Debt Security to one or more Persons and, upon the Trust giving notice of such assignment to Enron specifying the interest hereunder being assigned and the Person to which such interest is being assigned, each reference herein to the Trust shall (solely in respect of the interest so assigned) constitute a reference to such assignee (as if such assignee were named herein) rather than the Trust. The Trust shall be entitled to have this Debt Security subdivided by exchange of this Debt Security for debt securities of lesser denominations ("Successor Debt Securities") per the Except necessor for reflect any such assignment.

In connection with any partial assignment of this Debt Security, the parties agree to amend this Debt Security and any Successor Debt Securities to reflect changes reasonably requested by the parties in graft to address intercreditor, voting and other issues.

ENRON CORP.

By: WO W. F.
Name: Willow W. france
Title: Depty Tresser

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CITI-SPSI 0004930

Pay to the Order of United States Trust Company of New York, as Collateral Agent, under that certain Collateral Security Agreement dated as of November 18, 1999, among Yosemite Securities Trust I, Citibank, N.A. and United States Trust Company of New York, as Indenture Trustee, Collateral Agent, Account Bank and Securities Intermediary.

Date: November 18, 1999

YOSEMITE SECURITIES TRUST I





debt-security ver 7 DOC debt-security

CITI-SPSI 0004931

SIDE AGREEMENT

August 25, 2000

By our signatures below, we acknowledge and agree that, for purposes of the Confirmation dated November 18, 1999 under the Master Agreement between Enron North America Corp. and Delta Energy Corporation dated November 18, 1999, and the Transaction thereunder, each reference to "Defaulting Party" and "Non-defaulting Party" therein shall, in connection with any Termination Event, be deemed a reference to the "Affected Party" and the party which is not the Affected Party, respectively.

NY3:#7250187

CONFIDENTIAL

ENRON NORTH AMERICA CORP.

Namé: FIED D. LAGRASTA VICE PRESIDENT

DELTA ENERGY CORPORATION

By:_______Name: Title:

SIDE AGREEMENT

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NY3:#7250187

ENRON NORTH AMERICA CORP.

By:____ Name: Title:

DELTA ENERGY CORPORATION

By:
Name:
Title:

SIDE AGREEMENT

NY3:#7250187

CITI-SPSI 0034766



Cheers,

Adam Kulick and Rick Caplan

From: François, Tom

Sent: Tuesday, November 23, 1999 9:25 AM

To: Kulick, Adam: Caplan, Rick; Wagner, Eleano; [CITi]; Gupta, Ramesh; Bushnell, David C; Reilly, James [CITI]; Fox, William [CITI]; Stott, Thomas [CITI]; Feintech, Lynn; Warren, Doug; Engel, Marcy; Francois, Tom

Subject: RE: Enron - Yosemite II

Eleanor asked me to summarize my conclusions a little differently:

In Yosemite I, purchasing the Certificates put us in a position where we can lose money even if no basis risk exists between Eriron Bonds and the Eriron Investments held in the Trust. If Eriron defaults and Yosemite's Eriron Investments are worth less than 50% of face we will lose money no matter where Eriron Bonds are Trading. Hence, it was appropriate to have the Certificate Investment approved on a CA.

With Yosemite II, in purchasing the Certificates, we can ONLY lose money because of Basis Risk. Since the Derivatives business approved and takes the basis risk on Yosemite I, and since the only risk associated with the Certificate Investment in Yosemite II is basis risk, it strikes me that Control Unit CA approval of this investment is not needed.

I attach a short spreadsheet which allows one to play around with the arithmetic. Inputs are in Yellow. Adam should be circulating a Transaction memo shortly.

Since we have a CMAC scheduled for today at 4:00, I suggest the folks that need to approve additional Yosemite assets (Bushnell, Engel, Wagner, Warren) stick around to hash this out. Jim, Bill and Tom, we can try to patch you in as well. I will be in touch.

Regards,



Tom

Sent: To:

Francois, Tom
Monday, November 22, 1998 1:53 PM
Kutick, Adam; Caplan, Rick; Wagner, Eleanor [CITI]; Gupta, Ramesh; Bushnell, David
C; Reilly, James [CITI]; Fox, William [CITI]; Stott, Thomas [CITI]; Feintech, Lynn;
Warren, Doug; Engel, Marcy
RE: Enron - Yosemite II

Subject:

For those of you who are not yet up to speed, Yosemite II will involve the issuance of up to Sterling 175mm of TWENTY YEAR bonds and "equity certificates" by Yosemite. The main asset will be a 20 year prepaid oil transaction, structured along the lines of that purchased with the issuance proceeds from Yosemite I.

As with the first series, Citigroup and Enron will each purchase 50% of the certificates and the

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benefit of 100% of the Enron investments underlying the certificates would flow to Citi via the mechanics of the swap. Additionally, it is proposed with Yosemite II that Citi further hedge itself by purchasing default protection from Yosemite on a notional amount of Enron-reference obligations (bonds) equal to the amount of our equity investment (Yosemite would therefore invest in a like amount in AAA securities). The question is whether, as was the case for Yosemite I, we have to approve and carry the amount of our investment in the certificates on the Enron CA given the additional hedge.

With Yosemite I, we concluded that the recovery characteristics on our investment in the certificates were superior to those associated with a similarly sized investment in Enron bonds, but, since we could sustain a loss if the recovery rate on the vehicle's Enron investments was less than 50%, we put the full amount of our certificate investment on the Enron CA.

In the case of Yosemite II. I think there is a good argument that this is not necessary. Under the swap with Yosemite we would receive the Recovery Rate on the Eirron investments held by the Trust (the prepaid) on a notional amount equal to twice our certificate investment. With the addition of the purchased default protection, we would also receive the LIEC on Eirron bonds on a notional amount equal to our certificate investment. If one ignores potential basis risk between the Eirron investments and Eirron Bonds, we can only win since LIED plus Recovery Rate equals 100% and we would be collecting 2. Recovery Rate plus 1. *LIED. Pactoring basis risk into the equation, the break even point would be where the Recovery Rate on the Eirron investments turns out to be less than half the recovery rate on Eirron bonds. As far as I can see we are actually taking less basis risk by investing in the certificates and hedging in this fashion than we would take if we did not have any investment in the certificates at all and the only asset in the vehicle was the propaid.

Once Adam prepares a transaction memo, we will begin more formal discussions to obtain the approvals outlined by CMAC for additions/substitutions of assets. In the meantime, you can start thinking about some of the issues.

Regards,

Tom

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CITI-SPSI 0035140

Unknown

Caplan, Rick

From: Capitari, Rick Wednesday, December 15, 1999 4:03 PM Francois, Tom; Kulick, Adam FW: Enron, Failure to Pay on Prepaid Sent: To:

Subject:

Revised as requested...

--Original Message-

From: Francois, Tom
Sent: Tuesday, October 26, 1999 6:05 PM
To: Caplan, Rick; Sullivan, William A Enron Failure to Pay on Prepaid

As discussed, Jim Reilley wants something for his files to verify that we will not be at risk if Enron fails to pay interest on the Prepaid. This is what I propose to send him. Please take a close look. I think I have taken some liberties with respect to things that are not yet in documentation, but need to be.

You asked for an explanation of the mechanics behind an Enron failure to pay on the Prepaid; particularly what makes us comfortable that we will not have to pay to Yosemite any amounts that Enron fails to pay in a non-bankruptcy situation with respect to interest on the Prepaid.

Under the Yosemite swap if Erron defaults under the Prepaid, we will be obligated to replace the Prepaid with senior unsecured Erron obligations ("Deliverable Obligations"). The Deliverable Obligations we deliver can be non-performing if the default on the Prepaid rises to the level of an "Erron Failure to Pay." An Erron Failure to Pay is established through Publicly Available Information in a similar manner to standard credit default swaps. In addition, the Deliverable Obligations do not have to be obligations for borrowed money; a receivable related to termination of a swap agreement can be delivered.

If Enron does not make an "interest" payment on the Prepaid, the prepaid would be terminated and Delta (the issuing vehicle for the Prepaid) would have a claim on Enron for all or a portion of the principal amount. Failure by Enron to pay rehicle for the Prepaid) would have a claim on Enron for all or a portion of the principal amount. Failure by Enron to pay the structured that the prepaid of paying the coupon on the note it has issued to Yosemite, thereby resulting in a default on the structured Enron paper Yosemite holds. Publicly Available Information will exist with respect to a cefault on the Prepaid through the following mechanics: 1) causing Enron to make all payments to a segregated account at the Fiscal Agent (U.S. Trust Co.), 2) contractually obligating the Fiscal Agent to notify the parties of the default and 3) waiting the requisite time periods under the Yosemite swap.

Once the above occurs, Citi would be able to cause Delta to deliver the receivables Delta then would hold from the termination of the swaps (each of which will meet the Deliverable Obligation criteria) to Yosemite in exchange for the Delta Note that Yosemite holds. The swap receivables will be structured such that they will bear penalty interest at a rate at least equal to the coupon on Yosemite's notes. Under the Yosemite swap, Citibank can reduce the amount of its periodic payments by any amount Yosemite has not received on a non-performing Deliverable Obligation that has been substituted for a piece of structured Enron paper. In other words, the penalty interest will cover any going forward interest that accrues prior to the disposition of the Deliverable Obligations by the Trust.

If oil prices have declined, a portion of the Prepaid principal will be due to Delta from Citibank under the Delta/Citibank floor in the prepaid structure and, in turn, to Citibank from Erron under the Erron/Citibank floor. The default by Erron on its swap with Delta will give rise to a termination right under Citibank's swap agreement with Erron. Citibank would be able to satisfy its obligations under its floor with Delta by delivering a claim to Delta against Erron. Delta, in turn, would be able to satisfy its obligation under the Note issued by it to Yosemite by delivering to Yosemite the claim delivered to it by Citibank and the claim to direacy holds under its oil swap with Erron. If Citibank's claim after termination of its swap agreement with Erron is less than the amount it owes to Delta on the Floor (due to netting of other outstanding transactions). Citibank should be able to purchase Deliverable Obligations (presumably at a discount), or put in AAA interest of the properties of the properties of the properties of the properties. In the properties of the properties. investments (and sell default protection on Enron - presumably at a big premium). In either event, the economic consequences of having a net swap claim on Enron which is less than the amount payable to Delta on the floor would always be positive.

> Permanent Subcommittee on Investigations EXHIBIT #1890

Regards,

Tom

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DERIVATIVE TRANSACTIONS ASSOCIATED WITH THE YOSEMITE STRUCTURE

The following table sets forth a description of arch portion of the Yosemule transaction that could be characterized as other a derivative or an embedded derivative (each. a. "Derivative"). This description inclines the parties to acch Derivative, the purpose of the Derivative, the risks to Critigroup of the Derivative and any mitigants of such risks.

DEDIVATIVE	PARTIES	PURPOSE	Risks	MITTOANTS
Cash lina Seep Pode-Med interest the rusp	Cifford and the Vacerite Trees	Smoothes the cashiflows in better that and Carliflest Vision to the system (Date, 44) comy in the structure to the	The strain of th	Upon I allangogo i fatoron, al profession by Chairs at all cases, posmin har special to include among by framested breathers and eliquates new 1 hospitatory was in the departed to say in special in many and Chairs and an allangogo in the company of the law of Chairs and the company of the company of the control and fatoron special to the company of the control and the company of the company of the control and the company of the company of the control of the company of the control of the company of the control of the control of the control of the company of the control of the control of the control of the control of the co
Carl Plow Swap - AAA Investments	Citibenk and Enron	To the extent College, of their defined temps to throw Bartis, Cuthers, has for right to select AAA breatment. Cithents will retain may earling to the AAAA investments greater due 1.180A has be not shown to the AAAA for the AAAAA for the AAAAAA for the AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA	Euron will reinform Culbank for mry negative sorry on the AAA fivestiments between LIDOR and the Yous inkerest and Certificate Vield.	Cirban's ability to select AAA threatments. The selectable now will plot up regailine carry.
Ptriodic Payment Swep	Circhank and Enton	If eachings on Smoot investments are getaker that bose biscost and Confident Vield, oblitates Citibest to private access to Smoot.	No risk to Citigroup	NA *
Orefli Default Swap written on Perron Lovestreech	Cisbank and the Yearmile Trust	-	Recovery rise of British Bonds is lighter than recovery rate on British. Investments.	Careful existrations of each investment prior to purchase by the Youngland Than. Picking will reflect any perceived risk. Clickank along you has the solity to twin any sayet proposed by Enrich.
Delbuit Swaps with Breton	Ciffberth and Boron	Provides definit protection to Enton Binks on Coron.	Cilibrack takes counterparty credit risk to each Euron Bank for premiums doe ander the default swaps.	Clibback will endit approve each counterparty. Crads Derivatives believes that counterparties will be expiseeable.
Citizent Default Swap on	Clibrary and the Yosemia	AAA investments set as collateral for Citibest, on Erron default protection perchased from the Youthle Trust.	If the AAA Investments decline to value or softer a default, the value of Citchank's collateral settl have detectorsed by an equal personal.	Risk is highly rossoe. Lind selection of AAA investmens, which is all Citbook is discretion.
33A Swep	Cicbent Credit Defreshes and SBH Credit Defreshes	If the MTM value of Sta AAA investments falls below the MTM value of the partiesed definall protection, SBHI Credit Certricitives will colorientally and deletions; SBHI the the prior of the deletions; SBHI the behavior of the deletion of	RIA, to SBIII Credit Confording is that AAA three-treats decline in rabor	Transfer of stak from one part of Chiggroup to woother, no instrumental economies impact.
Total Reson Swap	SENI Credit Derivatives and third party belance alteri provider	Provides mechanism to 8834 Credit Derivative to receive economics of Vountit Treat Certificates.	If Enron defaults, Certificates areal Marky with be worthbas. If AJA investments default, Certificateholdbas bess first lest	Citiban's Swap is structured such that occonomies of usb Citigares position silve Citigares by have interestent equal to Youthite Notes, and no entire, industries shape at force buildingstry, may recover more than I seem to have been a force at force buildingstry, may recover more than I seem to been. AAA defeatif is high! strange.
Rocerery Rate Swap	SBIR Could Derivative	Acts as a moder for 2018 Credit Derivatives against the clais during facts on Daron Donds is less than 50%, recovery the on Enrop Bonds is less than 50%.	forestrony siste on Onson Donald is how than 50%.	Critis approval of per emount of Yosemhe Certificate (i.e., Certificates will appear on CA).

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CITI-SPSI 0005159

Permanent Subcommittee on Investigations
EXHIBIT #189p

Memorandum

CITIBAN(O)

GRB - Accounting Advisory

Date: March 29, 2000

To: Rick Caplan. Adam Kulick

CC: Alan Englander, Eric Pipa, Bill Mackey, Linda Bergen, Jim Conahan, John Langer William Bozart, Fred Bathine, Jim Conahan

From: Saul Bernstein

Re: Project Yosemite - Yosemite Co. Structured Credit Derivative Transaction

Transaction Objective: To free-up financing capacity for Yosemite Co. with its Banks

Risks and benefits to Citibank: Citibank receives various service based fees, and takes basis risk or benefit related to the difference between loss recovery rates on Yosemite Co. investments held by the Trust (on which Citibank has written protection) and the loss recovery rate on Yosemite Co. bonds (i.e., senior, unsecured payment obligations of Yosemite Co on which Citibank has purchased protection). Citibank has also written a total return swap on \$37.5MM of equity risk in the Trust (full exposure to Yosemite default risk). The below chart illustrates Citibank gains or losses based on the differences in recovery rates.

Differences in Recovery Rates	Citibank is short bonds	Citibank is long Yosemite investments held by the Trust
Bond Price>Investments price	Citibank loss (pays)	Trust gain (receives)
Bond Price < Investments price	Citibank gain (receives)	Trust loss (pays excess to Citibank)

The steps of the transaction structure are described below (dollar amounts and permitted investment type allocations are estimates):

Trust Balance Sheet

A Trust will be set-up and will hold \$1.5B in assets (referred to as permitted investments), \$1.350B (to yield L+125bp) in payment obligations supported in whole or part, directly or indirectly, by Yosemite Co. (referred to as Yosemite investments, and \$1.150B in AAA investments (to yield LBDR). The Trust will purchase existing Yosemite Co. Investments owned by Yosemite Co. lead banks and certain newly created Yosemite Co. Investments. AAA investments will be ABS, but not securities issued by Citibank managed recuritization Trusts or other Citibank managed securitization vehicles.

The Trust will issue\$1.425B of senior credit linked Notes (with maturities of five and seven years) in multiple series which bear an overall coupon, to be determined at pricing, and will issue certificates, subordinated in right of payment to the Notes, in the amount of \$75MM (yielding approximately 100 bps above the Note coupon), with \$0% (\$37.5MM) each to Yosemite Co. and to a substantive third party (balance sheet provider). A Salomon ownership-chain-entity (due to a 21A issue) will write a total return swap to the third party. \$SSB, as party to such total return swap, will not have any policy-making ability regarding the activities of the Trust.

All permitted investments must mature on or prior to the maturity date of the related Notes. The permitted investments will be available to repay the Notes when due. In the event of default of Yosemite Co, investments, Note investors will recover the same amount as a holder of a bond (l.e., senior, unsecured debt obligations) of Yosemite Co. That is, assuming that Citibank performs its obligations

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CITIBAN(O

under its default swap, the Noteholders will have Yosemite Co. credit risk as if they held Yosemite bonds with a principal amount of the Notes.

The Note holders also take the credit risk of AAA investments after the equity investors (and the Salomon entity as total return swap receiver/counter-party with the third party balance sheet provider) lose their \$75MM investment.

Transactions between Citibank and Trust

Page 2 Caplan/kulick March 29, 2000

The effects of the swap between Citibank and the Trust are as follow:

If a Yosemite Co. bankruptcy occurs, Citibank will settle the swap by (1) delivering Yosemite Co. senior, unsecured obligations in exchange for the permitted investments, or (2) payng to the Trust the amount of any difference between the recovery rate on Yosemite Co. investments held by the Trust and the recovery rate on Yosemite Co. bonds, the referenced obligations, multiplied by the outstanding Notes (but not certificates), or a combination of (1) and (2). Referenced obligations are publicly traded sentior unsecured corporate debt obligations (i.e., bonds of Yosemite Co.). This swap is referred to as a basis swap and will be in the notional amount of Yosemite Co. investments held by the Trust (i.e., not including any AAA investments held by the Trust). Thus, Citibank has the risk that the recovery rate on Yosemite Co. investments held by the Trust will be less than the recovery rate on Yosemite Co. bonds.

Under the terms of the basis swap, the Trust will pay to Citibank any excess of the recovery rate on referenced Yosemite Co. investments held by the Trust (expected to have the recovery value of senior unsecured Yosemite Co. obligations or Yosemite Co. bonds) over the recovery rate of Yosemite Co. bonds. This potential payment by the Trust will be based on a swap notional in an amount equal to Yosemite Co. investments held by the Trust plus \$15MM (amount of equity). Thus Citibank has a long position in the recovery rate on the Yosemite Co. investments held by the Trust (if the recovery rates were equal, Citibank would still receive a swap payment from the Trust in the amount of the recovery rate on Yosemite Co. investments held by the Trust times \$75MM). The basis swap may either be physically settled by delivering senior unsecured debt obligations of Yosemite Co. in exchange for the Yosemite Co. investments held by the Trust) or cash settled, or any combination thereof.

The Yosemite Co. investments and AAA investments will serve as security in favor of Citibank. The AAA investments will be delivered to Citibank related to the settlement of any default swap written by Citibank to the lead banks of Yosemite Co. (see below). Citibank, as secured party, has the right to control the workout of any asset in the Trust.

Also, as part of the basis swap, Citibank will make periodic payments to the Trust in the amounts necessary to service the Note coupon and Certificate yield and Citibank will receive all cash flows from all the assets in the Trust. If Yosemite Co. goes into bankruptcy, such payments cease immediately, as the swap is settled as described above.

Substitution Obligations

A separate agreement between Citibank and Yosemite Co. governs asset substitutions. The permitted investments may be changed over time provided that both Yosemite Co. and Citibank agree to any substitution. Yosemite Co. will select the initial Yosemite Co. investments, with Citibank's agreement, to place in the Trust. Citibank will select all AAA investments.

If a third party default event (a default on a Yosemite Co. investment by a party other than Yosemite Co.) occurs with respect to a Yosemite Co. investment held by the Trust, Citibank is obligated to deliver to the Trust new permitted investments in substitution of the relevant Yosemite Co. investment in the new permitted investments will be sold to redeem the related notes. Citibank will continue to make the fixed payments under the swap as if such 3rd party default event had not occurred. If there is a credit event

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related to the AAA investments; the Trust sells the investments and uses the proceeds to purchase new permitted investments. Citibank's fixed payments will be reduced as a result of the AAA credit event f par value is not realized. The Trust may be required by Citibank to acquire new or substitute permitted investments at any time

prior to the termination of the Citibank swap (before or after a Yosemite Co. credit event).

Transactions between Citibank and Yosemite Co. Lead Banks

To the extent the Trust holds AAA investments. Citibank will also sell default protection, upon instruction from Yosemite Co., to Yosemite Co. lead banks with Yosemite Co. bonds or Yosemite Company senior unsecured debt being the referenced assets. The AAA investments will serve as security in favor of arisecture used using the reperence assets. The AAA investments was the asset this section in formal color of Citibank. In the event of bankruptcy by Yosemite Co., the lead banks will deliver the referenced assets to Citibank and Citibank will in exchange make the lead banks whole for all losses. Citibank in turn will deliver the referenced assets to the Trust and receive AAA investments, i.e., payment-in-kind. This transaction is not a basis credit derivative swap, but is more similar to a standard credit derivative swap.

Transactions between Citibank and Yosemite Company

Under a separate agreement between Yosemite Co. and Citibank, Yosemite Co. will make periodic payments to Citibank for the difference, if any, between the Note coupon and certificate yield and cash flow on Yosemite Co. investments. As long as AAA investments minimally return a yield of LIBOR. Yosemite Co. is responsible for any cash shortfall in the Trust. It is expected that one of the Trust's assets (i.e., Yosemite Co. obligations) will have an adjustable coupon that will be designed to pick-up

If AAA investments yield less than LIBOR, then Citibank makes up the difference to LIBOR, and if AAA investments yield more than LIBOR, then Citibank receives such excess (assuming Yosemite Co. meets its payment obligations as described above).

If cash flow on Yosemite Company investments exceed Note coupon and certificate yield (highly remote), then Citibank must pay Yosemite Co. such excess.

Termination Provisions

Yosemite Co. can terminate its payments in whole or in part to Citibank at any time by making a termination payment. This termination will cause Citibank to terminate an equal portion of its swap with the Trust by making a termination payment (to the Trust) which, in turn, will cause an early redemption of an equal portion of the Notes (and in certain instances, the issued certificates). In summary, Yosemite Co. can terminate at will, but Citibank can not.

Example of Basis Risk (Yosemite Co. Investments comprise all Trust assets, i.e., \$1,500MM)

Assume that Yosemite Co. Bonds' recovery rate is 60% and assume swap notional are equal (i.e., disregard the \$75MM difference in notional amounts):

#1 Assume that upon default, Yosemite Co. Investments' recovery rate is 50% meaning Citibank reimburses the Trust the 10% difference in recovery rates, or in this case Citibank net settles/pays to Trust \$150MM (10% at \$1,500MM)

#2 Assume that upon default, Yosemite Co. Investments' recovery rate is 70%, meaning Citibank receives from the Trust the 10% difference in recovery rates, or in this case Trust net settles/pays to Citibank \$150MM

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Summary of Risks/Benefits (other than fees) to Citigroup

Structural Features	Citigroup Risks	Citigroup Benefits
Recovery rate of bonds > Recovery rate of Trust Investments	X	
Recovery rate of bonds < Recovery rate of Trust Investments		X
AAA investments yield < LIBOR	X	
AAA investments yield > LIBOR		X
Third Party (other than Yosemite Co.) default or non- payment event with respect to a Yosemite Co. investment held by Trust; Citibank obligated to deliver substitute Yosemite Co. investments which meet permitted investments criteria (new investments will be sold to redeem portion of Notes)	X	
Ownership of Equity certificate (exposure to Yosemite Co. as if holder of Yosemite Co. bonds and to AAA investments)	X	
Yield on equity certificate (but subordinated to coupon on Notes)		X
Payment to lead banks > value of AAA investments	X	

Accounting Considerations

The major issue relates to the accounting consolidation of the Trust. Consolidation by Citibank is not viewed as appropriate for the following reasons:

Yosemite Co. owns 50% of the Trust equity certificates, fully funding its equity investment, is at full risk over the entire life of the transaction (SEC requirements per D-14). Further, per the SEC (1297 speech), although certificates may be accounted for a debt instruments, certificates satisfy the SEC requirement that the owner's investment be equity legal form. Yosemite Co. certificate ownership will satisfy the minimum 3% (of SPY assets) SEC requirement over the full life of the transaction. The business advises that Yosemite Co.'s certificate will be 3% or greater with total Trust certificates likely aggregating from six to ten percent.

Because the balance sheet provider's investment is not at risk, the b/s provider's investment is not considered the real equity in the SPY. Since the b/s provider is not considered a real equity investor per the SEC guidelines, Citibank should not be viewed as a real equity investor by having written a total return swap (TRS) to the b/s provider. It is also unconventional in today's accounting literature and practice to have an entity consolidate another entity on the basis of having riskreward via a derivative instrument. It should be noted that Citibank, in accordance with its internal credit risk limits/allocations, may or may not hedge its basis risk with a third party.

Per EITF 90-15 and D-14, the SEC requires equity to be fully funded and at risk for the full life of the SPV. Citibank does not have a direct, nor funded, ownership in the other 50% of the Trust certificates.

The business has also pointed out, given certain recovery rates on Yosemite Co. bonds, that Citibank, as the TRS writer, would lose less under the TRS than Yosemite Co. would lose of its equity investment.

Yosemite Co. is the primary beneficiary of the Trust's assets and overall deal structure. The Trust assets are comprised of Yosemite Co. obligations and the structure is intended to free up financing capacity for Yosemite Co. and improve or preserve its credit rating with rating agencies. The basis swap is effectively Citibank's mechanism to earn fees from its expertise in managing credit risk. That is, Citibank's interest

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Page 5 Caplan/kulick March 29, 2000 CITIBAN(O'

in the Trust is in substance and in form a credit derivative, not an equity ownership interest (i.e., directly owned shares or certificates) through which it actively controls the operating activities of an entity.

Both Yosemite Co. and Citibank share the ability to select Yosemite Co. investments held by the Trust - neither controls.

The business advised that a non-consolidated SPV used by SSB entities in prior structured derivative transactions will serve the role of depositor. This role only serves to sponsor or start-up the Trust by making the appropriate filing with authorities. It does not involve any investment nor the performance of any function other than the initial filing - it a one time event. The accounting analysis and conclusions reached herein, consequently, are not materially affected.

Citibank will not have any voting rights or have any control position with respect to the Trust, nor have any decision-making ability regarding the operating policies and activities of the Trust (other than contractually limiting the Trust's ability to sell Citibank's security held by the Trust). As mentioned earlier, Yosemite Co. can terminate the structure at will. Citibank can not.

RBC Treatment in Trading Book

Based on the above, Citibank will have the following credit derivatives:

1) Basis swap: a swap notional of \$1.350MM to \$1.5B whereby Citibank will pay the recovery rate to Trust with Yosemite Co. Bonds as referenced assets

A swap notional of \$1,350MM to \$1.5B (but \$75MM greater) whereby Citibank will receive from the Trust the recovery rate on referenced Yo<mark>semite Co. Investments</mark> held by the Trust

2) Sold standard DS to Yosemite Co. lead banks (depends on amount of AAA investments held by Trust) with Yosemite Co. bonds or senior unsecured Yosemite Co. obligations as referenced assets; Citibank to make banks whole and receive the AAA investments from the Trust

3) Sold total return swap (TRS) to the substantive third party certificate/equity investor. The notional amount is \$37.5MM, and the referenced or underlying asset should be viewed as Yosemite Co. bonds.

The TRS should be booked by the SSB entity entering such derivative contract. Implications on the capital of such SSB entity have been reviewed with the responsible SSB personnel.

<u>I believe all of the above derivatives are credit derivatives and should be viewed as trading book transactions (as opposed to banking book transactions).</u>

Regards, Saul

CITI-SPSI 0034950

Butler-Kenzig, Patricia

From:

Sent: To: Cc:

Bernstein, Saul (CITI)
Wednesday, April 05, 2000 3:45 PM
Lee, Andrew P, Pipa, Eric
Bozarth, William T, Butler-Kenzig, Patricia; Englander, Alan1; Langer, John D; Mackey.
William J (CITI): Williams, Joanna

Project Yosemite - Revenue Recognition Subject:



In November, 1999 a US\$ denominated Project Yosemite transa Sterling based transaction closed in Fabruary, 2000). At the time of closing last quarter, complete information was not available to finalize the accounting for revenue recognition. What was known at the time, and has been confirmed, is that Enron has the unilateral right to collapse the transaction structure and be released from its obligation to pay remaining fees, 12.5bsp p.a. of the notional value of permitted investments in the Yosemite Trust. The fee, as specified in a Fee Letter, dated Nov. 18, between Critbank and Enron, is payable up to the earlier of an early termination date or the maturity (November 2004) of certain Enron (directly or indirectly backed) promissory notes, having a notional value of \$8000MM, held by Yosemite Trust. This fee is in connection with the basis swap between Critbank (Credit Derivatives Trading) and Yosemite Trust. The 12.5bps will be applied to any additional Enron debt purchased by the Trust at a later date (i.e., the deal size increases). In view of the contingent nature of the fee, income recognition was deferred. (Enron paid an up-front non-refundable fee of \$1.5MM which was recognized.) Business Financial Control has now analyzed the facts and circumstances, including related hedges, and believes that there is basis for additional income recognition related to the November. The accounting proposed herein would also be followed for the February transaction. The purpose of this memorandum is to document whether and to what extent income recognition is appropriate. Some transaction background follows.

Yosemite Trust purchased \$825MM of permitted investments, Enron senior unsecured debt instruments, funded by issuing Credit Linked Notes (8.25% coupon) to third party investors in the amount of \$75MM. (Please note that \$25MM of permitted investments had by the Trust is adjustable rate Erron debt instruments intended to ensure sufficient cash in-flow to service the issued Notes and Certificates.) Erron invested in 5 In November, 1999 a US\$ denominated Project Yosemite transaction closed (an UK

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direct credit substitute. This can be illustrated if we assume that the actual recovery rate on permitted investments is 49% and the recovery rate on senior unsecured Enron debt, as ordered by a Court of Law, is 50%.

Citibank Trading receives from the Trust (\$825 @ .49) \$404.25 Citibank Trading pays Trust (\$750 @ .50) (375.00)

Residual

29.25

Residual to B/S provider

Loss to Citigroup (.01 @ \$825MM)

(8.25)
Reimbursement from Citibank GRB Portfolio (.01 @ \$75MM) (a)

Loss to Credit Derivatives Trading Business (7.50)

(a) GRB Loan Portfolio would have to accrue its loss when probable and estimable which timing may not exactly coincide with MTM gain/reimbursement recognition by Trading Desk.

Summary of Derivatives/Contracts and Parties involved in the Structure (see attached flow-chart)

- 1. The basis swap between Citibank Trading and Yosemite Trust described above, leaves Citibank with recoveries basis risk on \$750MM and is long the recovery value on \$75MM as Citibank sells basis risk protection on \$750MM of senior unsecured debt and purchases recovery value on permitted investments of \$825MM. For example, if the recovery rates were both 50%, than Citibank would receive 5 @ \$75MM, or \$37.5MM. This would be returned to the balance sheet provider. Citigroup would not incur any loss on the basis risk, and would also NOT collect the 12.5bps of fees from Erron nor the after-hedge return on the TRS, 393bps, from the date of default. The uncollected fees for the period after the default/termination date would be foregone, resulting in a negative P&L impact to the extent already recognized. It should be noted that Enron loses its entire \$37.5MM investment in the certificates.
- 1a. Citibank (Credit Derivatives Trading) purchases a recovery-rate swap from the Citibank GRB Loan Portfolio, which provides the Trading Desk with protection in the event that the recovery rate on \$75MM notional amount of permitted investments is below 50%.

 2. There is a Fee Letter Agreement between Enron and Citibank Trading, whereby Enron pays 12.5bps constant fee on \$800MM (outstanding permitted investments less \$25MM) per annum as long as the transaction is in place but not beyond November '2004. The actual fees depend upon whether the deal size changes. Enron can unilaterally terminate but this is considered remote see Business analysis of this point discussed below. If Citibank 'walks' away, the fees are also lost (as well as being responsible for a make-whole payment to note investors).
- also lost (as well as boiling responses or investors).

 3. There is an Interest Rate Swap between the Trust and Citibank Trading, whereby Citibank receives the actual interest on all permitted investments in the Trust, and pays the Trust the necessary interest to service all outstanding Notes and Certificates. Upon a bankruptcy, the interest payments immediately
- 4. As mentioned above, there is a TRS between SBIL (Credit Derivatives Trading Desk) and Bank of Boston, the balance sheet provider. The trade SBIL has with

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Bank of Boston is backed-to-backed with SBHC (Salomon Brothers: Holding Co.-Credit Derivatives Trading, a non-bank vehicle). SBHC pays six month LIBOR + 35bps and receives the 11.0% (10.849%, when converted to actual/360) fixed rate on the certificates, \$37.5MM notional value, and pays 808 (via SBLI) \$37.5MM in the event of an Enron default. This results in SBIL having a synthetic \$37.5MM long position in the Trust certificates. SBIL hedges the interest rate risk in (5) below, and the default risk in (6) below. Under the TRS, SBIL is obligated to pay BoB \$37.5MM if Enron defaults regardless of the recovery rate on Enron sessequed senior (4bt). unsecured senior debt.

Treatment senior user.

5 There is also an IRS between SBHC - Credit Derivatives Trading and SBHC - Cebt Derivatives Desk. SBHC pays 6.655% (6.574% when converted to actual/360) fixed and receives six month LIBOR. (It is not known whether SBHC - Debt Derivatives Desk hedges this IRS with an outside party.)

Note: As a result of 4 and 5, SBHC - Credit Derivatives receives a structured net rate of 3.93% (10.849% less .0035 less 6.574%, or 3.926%) on \$37.5MM notional. In addition to the 12.5bps which Enron pays over the expected life of the transaction, this 933 bps is viewed as additional fees to SBHC Credit Derivatives Trading Desk for taking default and total return risk.

6. SBIL sells default swap protection to SBHC (Credit Derivatives Trading), and SBIL purchases default swap protection from Citibank Credit Derivatives Trading Cesk, whereby if Enron defaults, Citibank will pay \$37.5MM to the balance sheet provider. Citibank Trading Desk, in consideration for providing default protection to SBIL (on-sold to SBHC), will receive the above mentioned net premium of 393bps. Citibank's (Trading Desk) sold protection is hedged with a combination of (a) the long \$75MM certificate recovery value position (1 above), and (b) the recovery-rate swap executed with the Citibank GRB Loan portfolio (1a above). GRB Portfolio is providing protection in the event and the the extent the recovery rate on the \$75MM long recovery value position is below 50%. below 50%.

Possible Scenarios

Best Case: If recovery rates are equal and the recovery rate on permitted investments is at least 50%

No losses to Citibank Trading since no basis risk and no loss to GRB Loan Portfolio as recovery on permitted investments is 50%. The MTM gains (NPV of unpaid fees) at the time of default, however, would need to be reversed.

49 % recovery on Sr. Unsecured debt/50% recovery on permitted investments

In this scenario, Citibank Trading would gain .01 @ 825MM permitted investments, \$8.25MM, and Citibank Portfolio would not make any payment - a total Citigroup gain of \$8.25MM. Uncollected fees (NPV)are foregone and to extent recognized via MTM process, would be reversed via MTM.

Citibank (Credit Derivatives Trading Unit) Earnings Components

Based on an analysis by Business Financial Control, the MTM of all derivatives/contracts results in a NPV of \$10.5MM. The MTM can be viewed as representing the following components or the transaction.

a) MTM of Fee Letter Contract entitling Citibank 12.5bps on specified debt (for period outstanding) held by Trust in connection with having entered the basis swap (on \$750MM notional) with Trust, \$4.3MM.

b) MTM of Default/TRS with Trust related to receipt of actual recovery rate on long \$75MM position in permitted investments, \$2.3MM.

c) MTM of Default/TRS with Bank of Boston (via SBIL and SBHC Credit Derivatives), effectively representing the after-hedged (via IRS with SBHC Debt Derivatives Desk) locked spread of 11% on certificates (\$37.5MM notional) less Pay-fixed leg of 7.07%, or 393bps over contract life, \$4.0MM

The total is \$10.6MM before a MVA liquidity component of \$.350MM, or a net of

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\$10.2MM.

Note: For the February transaction executed in London, equivalent numbers are \$2.3MM (for 12.5bps in earnings), and \$5.4MM in MTM for other components. Also, an up-front tee of \$.5MM was paid, or \$8.2MM in total before a MVA liquidity component of \$.450MM, or a net of \$7.7MM.

Remoteness of Enron Terminating the Transaction

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Both Enron and Citibank have the legal right to collapse the structure. Both would have to pay a "make-whole" payment to compensate the note-holders and certificate holder (Citibank via the TRS with BoB), using a discount rate of T+50 and LIBOR + 2, respectively, to calculate the payments. Citibank would also have to settle the basis swap with the Trust at market. If Enron collapses the structure, the future cash flows underlying the 12.5bps and 393bps earnings components would not be made. The business believes that the make-whole payment would be sufficient to cover the 393bps earnings component, but would not cover any of the 12.5bps.

The business believes that it would not be in Enron's economic interest to terminate the transaction unless Enron is at least upgraded (from BBB today) to AA. Since the life of the transaction is five years, the business estimated the dollar gain or loss to Enron in an early termination (repurchase of Notes) given a five year Treasury yield. Enron note maturity and Enron credit spread. For the five year maturity scenario, the break-even Enron spread to Treasuries was 30bps. That is, the spread of Enron debt to Treasuries would have to be no greater than 30bps for Enron not to incur a loss in an early termination. The business reviewed swap spreads for the last five years between five year Treasuries and Corporate five year tenors, and the minimal spread was 20bps that is, the spread of 20bps swap spread, Enron would need to trade at LIBOR + 10 (i.e., T + 30) in order to not incur a loss. A 10bps spread to LIBOR, for a five year maturity, would approximate an AA-rated credit. Enron is currently rated BBB, and borrows at L + 75. The Business considers an Enron positive credit migration to AA only as a remote possibility, and therefore believes that the 12.5bps fee is probable of full collection and should be recognized up-front, i.e., MTM accounting Issues/Recommendations

collection and should be recognized up-front, i.e., M1M accounting should apply.

Accounting Issues/Recommendations

1. Is there an accounting basis for recognizing up-front the portion of transaction earnings, 393bps, embedded in the transaction structure using a MTM methodology despite the collection of related cash flows being subject to the remote contingency of Enron early terminating the transaction? Same question with regard to the MTM of the synthetic \$75MM long position. (In researching this question, the recently published SEC SAB on Revenue Recognition was possibled.) considered.)

Usually, contingent fees or earnings are not recognized until the contingency has been satisfied or removed, even if all products or services have been delivered/rendered to the satisfaction of the customer. In this circumstance, where the seller is a Trading Business which accounts for its activities on a MTM basis, such contingency or optionality is addressed in the valuation model used to perform MTM accounting. Given that the 393bps are embedded in derivative financial instruments, the business must perform MTM accounting, it is expected that the valuation model would be sufficiently sensitive to changes in market factors affecting this contingency, so that the MTM would be ...* appropriately adjusted on a timely basis. As noted above, Enron's make-whole apyment is expected to cover the 393bps. Also, see comments below on MVA adjustments for credit and liquidity components.

2. Based on the Fee Letter Agreement, is there an accounting basis for recognizing up-front 12.5bps of \$800MM (Delta 2004 Notes held by Yosemite Trust) despite the payment of these fees being contingent on the transaction not being terminated by Enron.? Enron does not need Citibank's consent to terminate. It also should be noted that if Enron terminates, the "make-whole" payment from Enron is not expected to be sufficient to cover this earnings component.

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The accounting concepts stated in 1, above also apply here. Additionally, a literal reading of the Letter Agreement (contract) states that the Fee Letter is in connection with Citibank having executed the basis swap with the Trust. The Letter states that the 12.5bps is in consideration of the mutual exchange of agreements in connection with the basis swap related to the permitted investments (Delta Note) held by the Trust. Although the Letter is not in the legal form of an ISDA contract, the economic substance of the Letter, in the context of the transaction structure, is that of a basis swap/credit derivative. The scope and mission of activities of the Citibank Unit is to enter credit derivative trading positions, to be reported and accounted for on a MTM basis. Therefore, to a large extent, the decision to MTM the rights and obligations underlying the Fee Letter, is based on the economic substance of the Letter and the fact that this business accounts for its activities on a MTM basis. Some comment as above with regard to the sensitivity of the valuation model. As alfuded to above, Citibank has completed the transaction, and there are no future services/products to be delivered or obligations to be incurred/existing or future assets to be sacrificed. Income recognition for the 12.5bps on a MTM basis appears to be appropriate.

3. If MTM accounting is to be performed, is a market valuation adjustment required?
As agreed with Business Financial Control, a MVA for a credit component (expected to be fed via GRR) and a liquidity component should be considered. The appropriate amount of liquidity/termination component, as detailed above, was determined in an amount of \$800M, and is intended cover any termination related loss or "haircut" to be incurred in attempting to sell Citibank's MTM receivable into the marketplace. receivable into the marketplace.

Regards, Saul

CITI-SPSI 0034960

Kirk, Niels From: Sent: To: Cc: Kulick, Adam 13 April 2000 17:00 Kirk, Niels, Renly, James F [CITI] Balille, Steve (CITI] RE; Enron Subject: Niels. Good seeing you the other day. Who's working on the structured credit basket? I've put a couple of calls into Treasa and she hasn't been very responsive... All the best, Adam -----Original Message-----From: Kirk, Niels Sent: Thursday, April 13, 2000 11:55 AM To: Reilly, James F [CITI] Cc: Kulick, Adam; Balille, Steve [CITI] Subject: RE: Enron i suspect that the Eastern contract was sold/ monetised as part of the Sutton Bridge sale to Edif (2 weeks ago). There could be some residual credit risk associated with Eastern that Enron are trying to bundle into the Y3 deal however. Subject: Re: Enron Neils: Thanks for the update. Adam asked me a question that I could not answer (not rare!): What has happened to the "Eastern deal" - ie, the contract intially suggested as the basis for Yosemite 2? _____Reply Separator____ Subject: Enron Author: Niels Kirk CCI. (niels.kirk@citi.com) at INTERNET/o=af1/c=us/a=mci/p=citicorp Date: 04/13/2000 10:25 AM Jim, You may be already aware of this but there seems to be 3 guys in the running for Jeff McMahon's job: Ray Bowen, Bill Brown and Paul Chivers. Chivers feels that his chances are slim. Chivers did not rule out the possibility that Fastow could go external. Otherwise in Europe we're working on: A follow-up deal to Yosemite II which involves a basket of UK utility credits designed to manage credit risk and create funds flow. Size: GBP 100/200 MM. 806

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Arcos, which is a 1200 MW CCGT in Spain. Project cost is \$650 MM and off-take is fully contracted (incl 33% to Enron). An equity investor that will bring the gas. Enron are favouring a bond solution but I suspect that bankbond (Ras Lafan) will be the likely outcome. They want to have their bank group mandated by end-June. Project Finance are following this.

Chivers mentioned that they have established enroncredit.com which provides bankruptcy protection or a b to b basis. They are still in "getting established" mode and there are a few teething issues. Seems that Mernil Lynch hit their site one day and tried to buy some protection but the guy at enroncredit shouldn't execute. Perhaps we should visit the site and lay-off some risk.....

Niels

Kirk, Niels

From: Sent:

To: Cc: Subject:

Kirk, Niels 13 April 2000 16:55 Reilly, James F (CITI) Kulick, Adam; Baillie, Steve (CITI) RE: Enron

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-----Original Message----From: james.reilly@citicorp.com [mailto:james.reilly@citicorp.com]
Sent: 13 April 2000 16:28
To: niels.kirk@citi.com
Cc: adam.kulick@ssmb.com; Steve.Baillie@citicorp.com
Subject: Re: Enron

Neils: Thanks for the update, Adam asked me a question that I could not answer (not rarel): What has happened to the "Eastern deal" - ie, the contract initially suggested as the basis for Yosemite 2?

Reply Separator ____

Subject: Enron
Author: Niels Kirk CCI. (niels.kirk@citl.com) at INTERNET/o=al1/c=us/a=mci/p=citlcorp
Date: 04/13/2000 10:25 AM

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CITI-SPSI 0034953

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james.reilly@citicorp.com 13 April 2000 16:28 niels.kirk@citi.com adam.kulick@ssmb.com; Steve Baillie@citicorp.com Re: Enron From: Sent: To: Co: Subject:

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Niels

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CITI-SPSI 0034954

Kirk, Niels

From: Sent: To: Subject: Kirk, Niels 13 April 2000 15:25 Reilly, James F [CITI] Enron

importance:

High

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Niels

Kirk, Niels

From: Sent: To:

Kirk, Niels 12 April 2000 11:29 Theil, Rita RE: Enron - Pipeline Discussion with Paul Chivers Subject:

I'll meet Rita at SSB Victoria reception (upstairs by the coffee shop) at 08:30. Hope this works. My mobile number is 0802 202 931.

Rita will be getting into Gatwick at 07:15 and will be coming back on the Gatwick Express into Victoria. Regards. Claudia

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Financing Summary dated August 10, 2000 Enron Credit Linked Notes Trust ("Enron CLN") \$[500 million] (the "Notes")

August 13,2000

Frequently Asked Questions

- Q: How does the Enron CLN transaction differ from the Yosemite transaction?
- A: The Enron CLN structure is a simplified version of the Yosemite transaction. The simplification of the structure should increase the liquidity of the Notes. The primary differences between the two structures are:
 - Citibank will make all interest payments regardless of defaults on Trust Investments, but absent an Enron default;
 - ii. Trust Investments are limited to highly rated short-term obligations (U.S. Governments, AAA insurance companies, and A-1/P-1 money center banks); there are no Enron obligations in the Trust prior to an Enron default;
 - iii. Citibank's rights to settle have been limited to a short time period; and
 - iv. Much of the flexibility to alter the structure has been removed in the Enron CLN structure.
- Q: What is the basic idea behind the Enron Credit Linked Notes?
- A: The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior unsecured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank's fulfillment of its obligations under the Credit Swan.
- A: The broad theme is to find the best home for different risks. As noted in <u>The Wall Street Journal</u> on 10/27/99, banks are increasingly reluctant to take on long dated credit risk (i.e. generally a 3-year time horizon), although they maintain a competitive advantage in structured finance. As with Yosemite, the Enron CLN structure allows Enron to take advantage of the flexibility provided by banks in structuring complex financings while placing pure long dated credit risk in the capital markets.
- Q: Why do the Enron CLNs make economic sense?
- A: Structuring risk is most efficiently priced in the bank market, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN structure allows Citigroup to place pure Enron credit risk in the bond market while keeping the structural risks in the bank market.

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Financing Summary dated August 10, 2000 Enron Credit Linked Notes Trust ("Enron CLN") \$[500 million] (the "Notes")

- Q: Why is Enron doing another structured financing?
- A: To take advantage of banks' structuring expertise while broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); the Enron CLN transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings.

 Examples include: contract monetization transactions, financing of \$2 billion of inventory Enron has taken on through Enron Network's acquisition earlier this year.
- Q: Does Enron intend to issue plain vanilla corporate debt this year?
- A: Enron has stated that it is not intending to issue plain vanilla corporate debt through year-end. Therefore, the Enron CLNs are likely to be the one security to most closely approximate Enron senior unsecured debt issued for the remainder of this year.
- Q: How does the Investor risk in this transaction differ from that in plain corporate debt?
- A: There are three risks to analyze: Enron, Citibank and the Trust Investments.
- Q: Is Enron running out of bank lines?
- A: Enron has substantially reduced its dependence on bank financing over the last year (over \$4 billion in freed up capacity). Enron believes that it has excellent liquidity in and access to the bank market. The Enron CLN issuance provides Enron with another avenue through which to source funds and expand its sources of capital.
- Q: How does this transaction affect Enron financial statements?
- A: The issuance of these notes will have no impact on Enron's balance sheet. The transaction is designed to allow Enron to restructure and lengthen existing structured financings that are already referenced in its financial statements.
- Q: What is Citigroup's interest?
- A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this

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Financing Summary dated August 10, 2000 Enron Credit Linked Notes Trust ("Enron CLN") \$(500 million) (the "Notes")

relationship, and the Enron CLN transaction allows Citigroup to continue executing sophisticated financings with Enron while managing its credit exposure. In addition, the Enron CLN Trust is a great follow up to Yosemite that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.

- Q: What are the benefits to investors?
- A: Investors receive a premium for taking Enron credit in a lightly structured form.
- Q: What kind of assets can the Enron CLN Trust hold?
- A: The Trust Investments are limited to certain high credit quality investments (time deposits, promissory notes or commercial paper of U.S. money center banks with short term ratings of A-I/P-1 and long term ratings of AA-/Aa3 that mature within 365 days of issuance, obligations for borrowed money or GICs of AAA/Aaa insurance companies that mature within 365 days of issuance, and direct U.S. government obligations). Trust Investments must bear a stated rate of interest and must mature prior to the maturity of the Notes. If the Notes are not in default, Noteholders will not know the Trust Investments but such information will be provided to the Rating Agencies.
- Q: What is investors' exposure to Enron?
- A: The Notes are designed to mimic the risk profile of Enron senior unsecured obligations. Following any payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.
- Q: What is investors' exposure to Citibank?
- A: Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank receives all payments from Trust Investments and is obligated to deliver to the Trust sufficient funds to make each coupon payment on the Notes.
- Q: Do investors' have other risks?
- A: The Enron CLN Trust will invest in certain high credit quality investments of different obligors meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities. This risk is in part mitigated by the presence of \$50 million of certificates, which are subordinated

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Financing Summary dated August 10, 2000 Enron Credit Linked Notes Trust ("Enron CLN") \$(500 million] (the "Notes")

to the Notes.

- Q: Can the Enron CLN structure be replicated?
- A: The Enron CLN structure is the result of Citibank's effort to simplify the structured financing programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.
- Q: Who will own the Certificates?
- A: The certificates will be privately placed on an undisclosed basis.

The foregoing memorandum is based on the issuer's offering memorandum. This memorandum may not be distributed to anyone outside Salomon Smith Barney. The contents of this memorandum should not be discussed with anyone outside Salomon Smith Barney (including the press) other than customers of the firm that are non-U.S. persons as defined in Regulation S, syndicate members, or the issuer. The securities that are the subject of this offering may not be offered or sold to anyone except non-U.S. persons as defined in Regulation S under the Act.

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CITI-SPSI 0051384

CLN Swaps

Enron/Citibank N.A. swap

Effective August 25, 2000 Citibank N.A. makes a fixed payment of \$439,677,103 to En America Corp.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005 ENA agrees to pay Citibank N.A. an amount equal to 568,024 bbls, at the December 2005 Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the payment date. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to 533,312 bbls.

On July 14, 2005, which the parties agree to be the final payment date of the transaction, ENA agrees to pay Citibank N.A. the lesser of \$475,000,000 and the amount equal to 23,238,748 bbls at the December 2005Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the final payment date.

Enron/Delta swap

Effective August 25, 2000, Delta Energy Corporation makes an initial payment of \$35,322,897 to Enron North America Corp.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005 Delta agrees to pay ENA an amount equal to 568,024 bbls at the December 2005Oil-WTI NYMEX futures contract. priced at closing 3 Commodity Business Days prior to the payment date. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to 533,312 bbls.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, ENA agrees to pay Delta \$17,750,750. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to \$16,665,982.

On July 14, 2005, which the parties agree to be the final payment date of the transaction, ENA agrees to pay Delta the greater of \$0 and the amount equal \$475,000,000 minus 23,238,748 bbls. at the December 2005Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the final payment date.

Delta (Citibank N.A. swap

Effective August 25, 2000 Citibank N.A. makes an initial payment of \$35,322,897 to Delta.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005 Citibank N.A. agrees to pay Delta an amount equal to 568,024 bbls at the December 2005Oil-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the payment date. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to 533,312 bbls.

On each January 14 and July 14 beginning January 14, 2001 and ending July 14, 2005, Delta agrees to pay Citibank N.A. \$17,750,750. The first payment on January 14, 2001 will be prorated by the actual number of days elapsed since closing, for an amount equal to \$16,665,982.

On July 14, 2005, which the parties agree to be the final payment date of the transaction, Delta agrees to pay Citibank N.A. the greater of S0 and the amount equal to \$475,000,000 minus 23.238.748 bbls at

Permanent Subcommittee on Investigation:

EXHIBIT #189u

the December-WTI NYMEX futures contract, priced at closing 3 Commodity Business Days prior to the final payment date.

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Lee, Andrew P [FIN]

From:

Sent: To: Cc: Subject:

Bernstein, Saul [CITI] Wednesday, October 18, 2000 12:45 PM Lee, Andrew P [FIN] Cougle, Foster [FIN] RE: RE: Enron Follow-up

Andy, per our discussion, the situation is as follows: The Trust issued \$475MM of CLN to 100% risk weight investors, and a first loss \$50MM CLN to RBOC, against which Clibank wrote a Total Return Swap. Clibank, consequently, consolidated the Trust. The Trust deposited the CLN proceeds as a deposit with Clibank, which in turn extended credit to Enron in the form of a prepaid swap. For GAAP purposes, the financing of Enron is reported as a prepaid swap for RBC purposes is reported as a loan. For RBC purposes, the business would like to apply cash collateralization rules to achieve a zero risk weight. The thinking is that Clibank is not out-of-pocket cash and that if Enron defaulted on the prepaid swap, Cibbank could deliver such swap for other similar Enron deut) to the CEN investors in return for forgiveness in repaying the CENs. We would need to have Business counsel advice that Clibank has the aforementioned legal rights, enforceable in all circumstances, such that Clibank has effectively transferred the credit risk related to the prepaid swap to the CEN investors. In addition to the internal legal evaluation, Financial Control should review the CEN documents. It is essential that the CLN be directly linked to (i.e., referenced to in the CLN documentation) the prepaid swap. Only in these circumstances, would it then be appropriate to report the prepaid swap (loan) at zero risk weight for RBC purposes.

Let me know what you learn.

----Original Message---From: andrew.p.lee [SMTP:andrew.p.lee@ssmb.com]
Fon: Tuesday, October 17, 2000 8:18 PM
To: saul-bernsten
Co: andrew.p.lee: foster.cougle
Subject: RE: Enron Follow-up

Hi Saul,

I have a follow-up question regarding the RBC treatment for the Enron transaction if you don't mind. Per the guidance below, we did treat the prepaid oil swap as a loan/direct credit substitute (100% risk weighted) for 9/30. A question I have though is that since the desk has a hedge for the credit exposure of the "loan" by essentially purchasing credit protection protection
from the trust/noteholders, is there a way to get some reduction in the

As always, thanks for you help.

Regards. Andy

Andy, please see forwarded response. Hope all is well.

Permanent Subcommittee on Investigations

EXHIBIT #189v

1

Regards, Saul

----Original Message----From: Mackey, William J. Sent: Wednesday, October 04, 2000 12:01 PM To: Bernstein, Saul Subject: Enron Follow-up

Andy, I just completed a second review of the structure to ensure the appropriateness of consolidating the Trust. Since the Royal Bank of Canada

(RBOC), the holder of the S50MM CLN, Credit Linked Notes, transfers the risk of holding these Notes to Citibank via the Total Return Swap, RBOC is not at

holding these Notes to Growant in the Frisk and can not be viewed as the equity owner of the Trust. Citibank should consolidate the Trust. Eliminating the double count (for Citibank - Credit Derivatives Trading Unit) of assets requires the removal of the Citibank EM Treasury Desk from the transaction. Regardless of the feasibility of the heliow

Treasury Desk from the transaction. Regardless of the feasibility of the bellow options, your books as of 9/30 should reflect the consolidation of the Trust. Some options to consider follow. Have the Trust (an apparent third party opposite Enron since Citibank is consolidating it) place the funds and enter a prepaid swap directly with Enron. Enron would have to pay one year LIBOR to the Trust to keep the pricing intact. What purpose does Citibank EM Treasury play? Must the Trust options regarding investment activities? Is the Trust authorized per its Charter to

enter a prepaid swap?
A second option is for the Trust to place the funds directly with the Cribbank
Credit Derivatives Desk (CD), as an intra (not inter-company) company receivable/payable (which would be eliminated within the Combined CD financials. Can Cribbank - CD borrow from an external source

(notwithstanding that we are consolidating the Trust for accounting purposes, the Trust is an

otherwise separate legal entity not within the ownership chain of the Citigroup family.) Since we are consolidating the Trust's debt (presumably raised

third party investors), this may be a moot point. I'm copying M. Waters of OCF

OCF
for informational purposes.
A last option is to replace the EM Treasury Unit with a third party bank,

This is a cost/benefit decision by the business. For RRC purposes, I would treat the prepaid swap as a loan, a 100% risk weighted asset. Same RBC treatment given to a direct credit substitute. For GAAP, the prepaid derivative should be MTM as a trading postion. Regards, Saul

___ Forward Header

Subject: Enron Follow-up Author: andrew p.lee (andrew.p.lee@ssmb.com) at INTERNET Date: 09/25/2000 10:44 AM

Good seeing you on Friday and hope the camping trip went well! I just wanted to follow-up regarding the Enron deal. We ended up discussing

the trade for a few minutes with Saul on Friday and off the top of his head, seems to believe that consolidation of the trust is clearly necessary.

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However, he wasn't sure if it made sense that this trade is then basically double-counted on the balance sheet for the Credit Derivatives desk (once as a prepaid oil swap and again as a intracompany deposit) resulting in this trade adding approximately a billion dollars of assets. Overall from a consolidated Firm point of view, only the prepaid oil swaps and the credit linked notes would appear on the balance sheet but the balance sheet from the Credit Derivatives desk point of view (and Emerging Markets Desk) gets grossed-up.

Assuming we have to consolidate the trust, any suggestions on how we can avoid this?

Also, shoulld we go ahead and treat the prepaid oil swap as a direct credit substitute with a 100% conversion factor for RBC?

Thanks for your help.

-Andy

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----Original Message---From: andrew.p.lee [SMTP:andrew.p.lee@ssmb.com]
Sent: Tuesday, October 17, 2000 8:18 PM
To: saul.bernstein
Co: andrew.p.lee; foster.cougle
Subject: RE: Enron Follow-up

Hi Saul,

I have a follow-up question regarding the RBC treatment for the Enron transaction if you don't mind. Per the guidance below, we did treat the prepaid oil swap as a loan/direct credit substitute (100% risk weighted) for 9/30. A question I have though is that since the desk has a hedge for the credit exposure of the "loan" by essentially purchasing credit protection from the trust/noteholders, is there a way to get some reduction in the risk weighting?

As always, thanks for you help.

Regards, Andy

----Original Message---From: Bernstein, Saul [CITI]
Sent: Wednesday, October 04, 2000 1:26 PM
To: Lee, Andrew P (FIN)
Cc: Cougle, Foster [FIN]; Mackey, William J [CITI]; Waters, Marty [CITI]; Williams, Jo-Anne [FIN]

Andy, please see forwarded response. Hope all is well.

Regards, Saul

----Original Message----From: Mackey, William J. Sent: Wednesday, October 04, 2000 12:01 PM To: Bernstein, Saul Subject: Enron Follow-up

Andy, I just completed a second review of the structure to ensure the appropriateness of consolidating the Trust. Since the Royal Bank of Canada

(RBOC), the holder of the \$50MM CLN, Credit Linked Notes, transfers the risk of holding these Notes to Citibank via the Total Return Swap, RBOC is not at risk and can not be viewed as the equity owner of the Trust. Citibank should consolidate the Trust. Eliminating the double count (for Citibank and Credit Derivatives Trading Unit) of assets requires the removal of the Citibank EM Treasury Desk from the transaction. Regardless of the feasibility of the below options, your books as of 9/30 should reflect the consolidation of the Trust. Some options to consider follow.

Rave the Trust (an apparent third party opposite Enron since Citibank is consolidating it) place the funds and enter a prepaid swap directly with Enron. Enron would have to pay one year LIBOR to the Trust to keep the pricing intact. What purpose does Citibank EM Treasury play? Must the Trust's placement of funds be in deposit form as required by its Charter provisions regarding investment activities? Is the Trust authorized per its Charter to

enter a prepaid swap?
A second option is for the Trust to place the funds directly with the Citibank Credit Derivatives Desk (CD), as an intra (not inter-company) company receivable/payable (which would be eliminated within the Combined CD financials. Can Citibank - CD borrow from an external source (notwithstanding that we are consolidating the Trust for accounting purposes, the Trust is an

Permanent Subcommittee on Investigations
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otherwise separate legal entity not within the ownership chain of the Citigroup family.) Since we are consolidating the Trust's debt (presumably raised from third party investors), this may be a moot point. I'm copying M. Waters of OCF for informational purposes.

A last option is to replace the EM Treasury Unit with a third party bank. This is a cost/benefit decision by the business.

For RBC purposes, I would treat the prepaid swap as a loan, a 100% risk weighted asset. Same RBC treatment given to a direct credit substitute. For GAAP, the prepaid derivative should be MTM as a trading postion.

Regards, Saul

Forward Header

Subject: Enron Follow-up
Author: andrew.p.lee (andrew.p.lee@ssmb.com) at INTERNET
Date: 09/25/2000 10:44 AM

Hi Bill,

Good seeing you on Friday and hope the camping trip went well! I just wanted to follow-up regarding the Enron deal. We ended up discussing

the trade for a few minutes with Saul on Friday and off the top of his head, he seems to believe that consolidation of the trust is clearly necessary. However, he wasn't sure if it made, sense that this trade is then basically double-counted on the balance sheet for the Credit Derivatives desk (once as a prepaid oil swap and again as a intracompany deposit) resulting in this trade adding approximately a billion dollars of assets. Overall from a consolidated Firm point of view, only the prepaid oil swaps and the credit linked notes would appear on the balance sheet but the balance sheet from the Credit Derivatives desk point of view (and Emerging Markets Desk) gets grossed-up.

Assuming we have to consolidate the trust, any suggestions on how we can avoid this?

Also, shoulld we go ahead and treat the prepaid oil swap as a direct credit substitute with a 100% conversion factor for RBC?

Thanks for your help.

-Andy

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Unknown

Bernstein, Saul (CITI) From:

Sent: To:

Bernstein, Saul (LTI)
Thursday, October 19, 2000 1:19 PM
Lee, Andrew P (FIN)
Bendernagel, Donald (GCO); Capian, Rick (FI); Cougle, Foster (FIN)
RE: RE: RE: Enron Follow-up

Subject:

Andy, I had a chance to speak with Rick this morning. He clarified that in an Enron default event, Citibank has the right to deliver \$500MM of deliverable Enron obligations (DEO) to the Trust, and to receive \$550 of Trust investments (i.e. all the assets of the Trust). Citibank would therefore take back all of its\$550MM deposit liability. Citibank would be ahead by \$50MM. The note-holders would solely look to the recovery value of the DEO to have its \$500MM of Notes repaid. It is intended that the note-holders utilitately have exposure to Enron senior unsecured default risk. Nothing would remain for the certificate holder (RBOC), which entity would lose its entire \$50MM investment. Citibank would then pay the certificate holder (RBOC) \$50MM to settle the TRS. Thus, in the Enron default scenario, Citibank, nor the certificate holder, would NOT sustain a loss. In view of the above, I believe it is appropriate for Citibank to report the benefits of the effective cash collateralization arrangement for RBC purposes. That is, there should not be a risk asset. Rick stated that this was the understanding when the deal was structured.

As a last point, Rick also mentioned that there is a Milbank, Tweed memorandum which clarifies that the prepaid swap meets the definition of a deliverable Enron obligation (DEO). We need this letter (please fax me a copy) plus CM confirmation from Don on this point. We could then revise the RBC reporting.

Regards, Saul

From: andrew.p.lee [SMTP:andrew.p.lee@ssmb.com]
Sent: Thursday, October 19, 2000 8:45 AM
To: saul.bernstein
Cc: andrew.p.lee; foster.cougle
Subject: RE: RE: RE: Enron Follow-up

Hi Saul,

Thanks for your comments.

One thing to note though is that the certificate-holders actually do not sustain the loss if a credit event occurs. Though the certificate-holders retain the first loss exposure in regards to the performance of the Trust Assets, if a Enron Credit Event were to occur, the certificates are actually redeemed. Under the terms of the Settlement following an Enron Credit Event, in return for Citibank delivering Enron Deliverable Obligations to the Trust, the Trust will deliver an amount of Trust Investments to Citibank equal to the amount of Enron Deliverable Obligations that Citibank delivered plus an amount equal to the Base Amount of the Certificates.

Thus, following a credit event we would not have any exposure to the certificates and would no longer consolidate the trust. The assets of the trust at that point (the Enron assets that Citibank delivered) would solely belong to the noteholders.

1

Please let me know how this affects your thoughts.

Thanks, Andy

----Original Message----

Permanent Subcommittee on Investigations EXHIBIT #189x

From: Bernstein, Saul [CITI] rrom: sernstein, Saul (CITI) Sent: Wednesday, October 18, 2000 7:42 PM To: Lee, Andrew P (FIN) Cc: Cougle, Foster [FIN] Subject: RE: RE: Enron Follow-up

Andy, I agree it is wise to wait for Don's in-put. I have, however, some

I believe that relative to the prepaid swap asset, Citibank is providing first loss protection to the certificate-holders by writing the total return swap (TRS) against the certificates (considered the equity in the structure) issued by the Trust. The deposit is, in an amount equal to the Note and Certificate

issuance proceeds, so the certificate holder would also sustain losses under

the terms of the credit swap. The note-holders and certificate holder, in a

worse case scenario, would lose their entire investment if the prepaid swap had a zero recovery value and the Trust had no other sources of repayment. Under the TRS, Citibank would make the certifficate holder whole. In all credit derivative structures in which Citibank purchased protection to obtain RBC relief, the first loss retention was limited to 1%. Here the first loss is about ten percent (550/5525). This maximum loss exposure is greater than the 8% capital we currently would reserve for the prepaid swap (loan). Accordingly, taking any RBC relief would seem inappropriate. If I'm not correctly understanding our loss exposure, please advise.

Also, for the record, I'm not sure if we are correctly characterizing the instrument we are trying to report for RBC purposes. The asset swap is pursuant to the terms of the Credit Swap between Citibank and the Trust. Assuming Citibank has the right to deliver the prepaid swap in return for the Trust's

Citibank has the right to deliver the prepaid swap in return for the Trust's investment (i.e., its deposit with Citibank), in squal principal amounts, this asset swap is occurring within the Citicorp consolidated entity (since we are consolidating the Trust). We are not dealing with either a default swap or a credit linked note - two conventional types of credit derivatives. The note-holders are not obligated (per the credit swap) to reimburse Citibank for default losses on the prepaid swap nor is there principal debt forgiveness in the amount of any default loss on the prepaid swap. Instead, we have a combination of a credit swap agreement (inter-company on a practical reporting level) and note issuance terms which effectively permits Citibank to transfer senior unsecured Enron indebtedness default risk to the note holders and certificate holder (the investors). The investors can be limited, in an Enron credit event, to solely look to the recovery value of non-performing Enron deliverable (delivered to the Trust) obligations for repayment. If not for the first loss exposure, I believe we would have some form of cash collateralization arrangement (not a credit derivative) which is legally enforceable and economically effective - otherwise worthy of seeking an opinion from counsel and from Corporate Regulatory Advisory.

----Original Message---From: andrew.p.lee [SMTP:andrew.p.lee@ssmb.com]
Sent: Wednesday, October 18, 2000 5:50 PM
To: saul.bernstein
Cc: andrew.p.lee; foster.cougle
Subject: RE: RE: Enron Follow-up
Importance: High

Hi Saul,

Here's what we found out. Amanda Angelini (one of the structurers) confirmed that upon a credit event we can legally deliver the prepaid

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swap to be used to pay the noteholders. I left a message with Don Bendernagel to call me to confirm this but Amanda also assured me that he agreed with this view.

The terms found in the offering memo do appear to support this. According to the terms, if a credit event occurs, Citibank can deliver to the trust Enron Deliverable Obligations which would include any senior obligation of Enron (including swaps) that would rank at least equal in priority to claims against Enron for senior unsecured indebtedness that is not a participation interest and which is considered "actively traded" by IRS standards (which Amanda believes is satisfied by the prepaid swap). In return, Citibank would receive the trust assets (the Citibank CD) which would make us whole on the prepaid and on the equity certificates.

Thus, though the prepaid swap is not specifically mentioned in the offering memo, it does appear to satisfy the criteria that is stated in the memo. As a result, it does appear we have effectively transferred the credit exposure to the noteholders.

Please let me know if you think this is sufficient to go ahead and reduce the risk-weighting to 0%. We may still be able to revise the 9/29 reporting if we act quickly.

Thanks, Andy

----Original Message---From: Bernstein, Saul [CITI]
Sent: Wednesday, October 18, 2000 12:45 PM
To: Lee, Andrew P [FIN]
Cc: Cougle, Foster [FIN]
Subject: RE: RE: Enron Follow-up

Andy, per our discussion, the situation is as follows: The Trust issued \$475MM of CLN to 100% risk weight investors, and a first loss \$50MM CLN to RBOC, against which Citibank wrote a Total Return Swap. Citibank, consequently, consolidated the Trust. The Trust deposited the CLN proceeds as a deposit with Citibank, which in turn extended credit to Enron in the form of a prepaid swap. For GRAP purposes, the financing of Enron is reported as a prepaid swap derivative (MTM) and the CLN as third party borrowings. The prepaid swap for RBC purposes is reported as a loan. For RBC purposes, the business would like to apply cash collateralization rules to achieve a zero risk weight. The thinking is that Citibank is not out-of-pocket cash and that if Enron defaulted on the prepaid swap, Citibank could deliver such swap (or other similar Enron debt) to the CLN investors in return for forgiveness in repaying the CLNs. We would need to have Business counsel advice that Citibank has the aforementioned legal rights, enforceable in all circumstances, such that Citibank has effectively transferred the credit risk related to the prepaid swap to the CLN investors. In addition to the internal legal evaluation, Financial Control should review the CLN documents. It is essential that the CLN be directly linked to (i.e., referenced to in the CLN documentation) the prepaid swap. Only in these circumstances, would it then be appropriate to report the prepaid swap (loan) at zero risk weight for RBC purposes.

Let me know what you learn.

Regards, Saul

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Lee, Andrew P [FIN]

From: Sent: To: Ca:

Angelini, Amanda [FI] Wednesday, October 18, 2000 4:32 PM Lee, Andrew P [FIN] Caplan, Rick [FI] Re: Enron

Subject:

If the question is whether the prepaid is a deliverable obligation then the answer is yes. The actively traded reference is a tax definition. We are comfortable that there is a market for prepaids.

Please call if you want to discuss further.

Amanda

-----Original Message----From: Lee, Andrew P [FiN] <a106030@mcnam.ssmb.com> To: Angelini, Amanda [Fi] <aa13374@imcnam.ssmb.com> Sent: Wed Oct 18 15:33:38 2000 Subject: Enron

Hi Amanda,

Yes, believe it or not, we are still working out some issues on the Enron trade.

After receiving guidance from accounting policy, we ended up consolidating the trust (we have the Emerging Markets CD and the CLN's on our books) and we treated the prepaid swap as a loan (100% risk weight) for RBC purposes.

What I'm trying to work on is to get the risk weight reduced on the prepaid swap. Per accounting policy we need to prove that we have legally transferred all credit risk. From their point of view they would like to see that the CLN is directly linked to the prepaid swap.

In the offering memo, the definition of Erron Deliverable Obligation includes "actively traded" Obligations (including swaps). Do we have the documentation in place to allow us to deliver the prepaid swap under this definition? Is there someone in legal who can confirm this?

Thanks, · · · Andy

Permanent Subcommittee on Investigations EXHIBIT #189y

Lee, Andrew P [FIN]

From: Sent: To: Cc:

Subject:

Angelini, Amanda [FI]
Monday, November 20, 2000 4:29 PM
Lea, Andrew P [FIN]
Caplan, Rick [Fi]
FW: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Andy

We are indifferent as to whether it is booked separately. As for Delta's benefit - Delta does receive a small fee for entering

Amanda

-----Original Message----From. Lee, Andrew P [FIN]
Sent: Thursday, November 16, 2000 4:33 PM
To: Angelini, Amanda [Fi]
Co: Cougle, Foster [FIN]
Subject: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Hi Amanda.

Thanks for getting back to me.

The Citibank Swap Fee I'm referring to is the 30bps on the 500mm notional. It is currently booked as part of the promissory note coupon and I'm wondering whether or not it should be booked separately.

If I'm interpreting your response properly, does it mean that Delta entered into an offsetting trade with Enron to hedge the trade that they have with us? How does Delta benefit from this transaction?

Thanks, Andy

-----Original Message----From: Angelini, Amanda [Fi]
Sent: Thursday, November 16, 2000 3:32 PM
To: Lee, Andrew P [FiN]: Caplan, Rick [Fi]
Co: Cougle, Foster [FiN]
Subject: RE: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Andy - I would answer your questions as follows -

There is a limited secondary market for the prepaid as other banks are doing them in the market.

There was a promissory note issued by Erron at closing. What Citibank Swap fee are you talking about?

This is a third party independent relationship - Enron and Delta have entered into a market swap and put option with Delta.

Rick is out. Let me know if you need more information.

Amanda
-----Original Message---From: Lee, Andrew P (FiN)
Sent: Thursday, November 16, 2000 2:56 PM
To: Caplan, Rick (Fil): Angelini, Amanda [Fil]
Co: Cougle, Foster (FiN)
Subject: FW: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Hi Rick/Amanda.

Permanent Subcommittee on Investigations EXHIBIT #189z

We have been going back and forth a bit with Saul on a couple of SFAS 133 issues that he has brought up on the prepaid swap and the CLNs in the Enron transaction and I was wondering if you could help us on a few more questions.

In summary, under SFAS 133 Saul states that we would no longer be able to mark to market the prepaid swap because it fails to qualify as a derivative. As a result, we would have to apply loan/accrual accounting for the prepaid. Additionally, since the Trust is consolidated onto our books (due to us effectively owing the certificates) the CLNs are our liability which need to have the embedded default swap bifurcated from the note.

There is still some question on how all this would exactly be done but it may potentially lead to volatility in the P&L. Thus, we are still debating some points with Saul.

The information the we are looking for that could help us in our discussions/analysis is:

- If necessary, could we make an argument that there is a secondary market for the prepaid swap?
- Will there be an actual \$25mm promissory note issued by Enron (it currently is booked by the desk as a swap) and will the Citibank Swap fee be included in the coupon payment on it? ("know the Basis Swap fee is covered under a separate letter but I'm not certain about the Citibank Swap fee.)
- What exactly is the relationship between Enron and Delta? (I know Delta is independently managed but what is Enron's relationship with it).

Please let me know also if you have any thoughts on this issue and thanks for your help.

-And

-----Original Message----From: Bernstein, Saul [CITI]
Sent: Friday, November 10, 2000 7:26 PM
To: Lee, Andrew P [FIN]
Cc: Cougle, Foster [FIN]; Erlanger, Joseph [FIN]; Mackey, William J
[CITI]: Williams, Jo-Anne [FIN]
Subject: RE: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swa ps

Andy, my comments follow.

- The CLN does not make direct reference to the prepaid swap, but rather to deliverable obligations of Enron but business counsel indicates the prepaid swap would satisfy the definition of a Deliverable Enron Obligation (DEQ). This protection is against the whole prepaid swap (loan) or other DEOs, not against a sold default swap position embedded in the prepaid swap. The bank has a funded exposure, not a sold credit derivative, or a synthetic long position. I would not bifurcate the default swap from the CLN, because I believe it makes more sense to follow the current banking book accounting treatment today when they purchase protection i.e., accrual accounting. We're kind of stuck until the FASB revisits this lilogical result.
- Because this prepaid swap is part of a structured transaction, my impression is that we are not holding this loan for short-term profit opportunity. Also, my impression is that their would not be much of a secondary loan trading market for this customized prepaid swap which is protected by the CLN. If this loan was purchased in the secondary market, maybe we could then view it as a trading asset. Overall facts and circumstances would need to be considered.

CITI-SPSI 0103604

Regards, Saul

-----Original Message----From: andrew.p.lee [SMTP:andrew.p.lee@ssmb.com]
Sent: Thursday: November 09, 2000 7:58 PM
To: saul bernstein
Co: andrew.p.lee; joseph.erlanger; foster.cougle
Subject: RE: Enron CLN Transaction - SFAS 133 Accounting for Prepaid Swaps

Hi Saul

We had a couple of thoughts/questions regarding the treatment of the Enron CLN transaction under SFAS 133 that we wanted to run by you.

One thought is that since we are marking to market the credit default swap that is embedded in the credit linked note, shouldn't we be able to separate and also mark the credit default component of the loan that hedges it?

Also, even if the prepaid swap is viewed as a loan instead of a derivative, why can't we mark-to-market the loan since it is held in a MTM trading portfolio? (Is it because we "originated" it instead of purchasing it?) From a hedgingtrading point of view, it would seem that this loan is not too different from other corporate debt which we MTM.

Thanks for your help.

-Andy

-----Original Message----From: Bernstein, Saul [CITI]
Sent: Thursday, October 05, 2000 2:05 PM -To: Lee, Andrew P [FIN]; Williams, Jo-Anne [FIN]
Cc: Kalyvas, Erika [FIN]; Mackey, William J [CITI]; Steinberg, David
[FIN]
Subject: AT&T Canada and Enron CLN Transactions - SFAS 133 Accounting for Pr epaid Swaps

For both of the above referenced transactions, the prepaid swap component of

the structured transaction would not qualify as a derivative per DIG A-9, Definition of a Derivative: Prepaid Interest Rate Swaps. The FASB definitional requirements apply to all derivative types - interest rates, commodities, equities, etc. Qualifying derivatives may not involve an initial investment

which is not smaller than the notional value or an economically equivalent (concept applies when leverage is used) notional value of the derivative contract.

This means that the contracts in the referenced transactions are non-derivative contracts. As a result, we need to determine the nature of the contract, and determine whether there are any embedded derivatives. In the AT&T transaction, I believe the host contract is a loan, and that there is an embedded call option which would be separated and MTM. The call option provides some upside to the customer, above which a certain price, the appreciation revert to Citibank. Any depreciation of the shares below the AT&T guaranteed floor

Citibank. Any depreciation of the shares below the ATAT guaranteed not price which Citibank pre-funded (monetized) exposes Citibank to credit/default

risk to AT&T. The same analysis for embedded derivatives needs to be performed for the Enron CLN transaction.

CITI-SPSI 0103605

Please note that this (GAAP) accounting is mandatory when we adopt SFAS 133 next year. It is possible to continue with past accounting practices up through year-end on the basis of consistency. The RBC (loan) treatment already recommended is appropriate. Assuming we continue with current accounting practice, I have illustrated (using the AT&T transaction) below an approach to dimensioning the transition adjustment upon adoption of SFAS 133 on 1/1/01.

Please call if you want to discuss.

Regards, Şaul

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Financing Summary dated May 2, 2001 Enron Credit Linked Notes Trust II Senior Notes Offering ("Enron CLN II")

\$[million] ("Notes")

May 2, 2001

Frequently Asked Questions

- How does the Enron CLN II transaction differ from the ECLN and Yosemite transaction? Q:
- The Enron CLN II structure is substantially similar to the ECLN transaction completed last August A: and is a simplified version of the Yosemite transaction. The simplification of the structure was designed to help the liquidity of the Notes. The primary differences between the Yosemite and ECLN II structures are:
 - i) Absent an Enron default, Citibank will make all interest payments regardless of defaults on Trust Investments;
 - ii) Trust Investments are limited to high credit quality, short-term obligations (Governments, AAA insurance companies, and A-1/P-1 and A+/A1 US, UK and E-11 banks); there are no Enron obligations in the Trust prior to an Enron default;

 iii) Citibank's rights to settle have been limited to a short time period and the optionality
 - has been restricted; and
 - iv) Much of the flexibility to alter the structure present in Yosemite has been removed in the Enron CLN II structure.
- Q: What is the basic idea behind the Enron Credit Linked Notes II?
- The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior unsecured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank's fulfillment of its obligations under the Credit
- Why does the Enron CLN II make economic sense? O:
- A: Structuring risk is most efficiently priced in the bank market, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN II structure allows Citigroup to place pure Enron credit risk in the bond market while keeping the structural risks in the bank market. In addition, the structure allows Enron to extend the tenors of certain structured financings.

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Permanent Subcommittee on Investigation EXHIBIT #189aa

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Financing Summary dated May 2, 2001 Enron Credit Linked Notes Trust II Senior Notes Offering ("Enron CLN II") \$[million] ("Notes")

- Why is Enron doing another structured financing? Q:
- Enron is doing another structured financing to take advantage of banks' structuring expertise while A: broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); the Enron CLN II transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings in
 - Examples include: contract monetization transactions, synthetic leases, commodity transactions, minority interest structures.
- Enron is undergoing many changes and as it expands its business, it has consistently developed new ways to finance its business in a manner that maximizes the value of the structure for Enron and its investors.
- Q: Why is Enron issuing the ECLN II in multi-currencies?
- The simplicity of the Enron CLN structure was a strong factor in the successful issuance of the first Euron CLN. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US
- Q: How does the investor risk in this transaction differ from that in plain corporate debt?
- There are three risks to analyze: Enron, Citibank and the Trust Investments. A:
- Q: Is Enron running out of bank lines?
- Enron believes that it has excellent liquidity in and access to the bank market. The Enron CLN II issuance provides Enron with another avenue through which to source funds and expand its
- O: How does this transaction affect Enron financial statements?
- The issuance of the Notes will have no impact on Emon's balance sheet. The transaction is designed to allow Euron to restructure and lengthen structured financings. The reporting of any

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Financing Summary dated May 2, 2001 Enron Credit Linked Notes Trust II Senior Notes Offering ("Enron CLN II") Si million!

\$(million) ("Notes")

underlying transaction will not be affected by the Notes.

- Q: What is Citigroup's interest?
- A: Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this global relationship, and the Enron CLN II transaction allows Citigroup to continue executing sophisticated financings with Enron in Europe and the US while managing its credit exposure. In addition, the Enron CLN II Trust is a great follow up to ECLN that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.
- Q: What are the benefits to investors?
- A: Investors receive a premium for taking Euron credit in a lightly structured form.
- Q: What kind of assets can the Enron CLN II Trust hold?
- A: The Trust Investments are limited to certain high credit quality investments. For Enron CLN II, the Trust Investments consist of:
 - i) time deposits, promissory notes or commercial paper of U.S. money center banks with short term ratings of A-1/P-1 and long term ratings of A+/A1 that mature within 98 days of issuance,
 - ii) promissory notes of or GICs from AAA/Aaa insurance companies that mature within 365 days of issuance or
 - iii) direct U.S. government obligations.

Trust Investments must bear a stated rate of interest and must mature prior to the maturity of the Notes. The Trust Investments held by the Collateral Agent will not at any time represent obligations of more than nine separate obligors. If the Notes are not in default, Noteholders will not know the Trust Investments but such information will be provided to the Rating Agencies.

- Q: Does each Trust have separate Trust Investments?
- A: Yes. The assets of each Trust will be solely for the benefit of the related investors.
- Q: What happens if any of the Trusts goes into default?
- A: The offerings are not cross-defaulted or cross-collateralized. The Credit Events are identical for each offering. Therefore, it is likely that all Notes will be in default at the same time. The

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Financing Summary dated May 2, 2001 Enron Credit Linked Notes Trust II Senior Notes Offering ("Enron CLN II") \$[million] ("Notes")

collateral for each Trust remains separate.

- Q: What is investors' exposure to Enron?
- The Notes are designed to mimic the risk profile of Enron senior unsecured obligations. A: Following any payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.
- Q: What is investors' exposure to Citibank?
- Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank receives all payments from Trust Investments and is obligated to deliver to the Trust sufficient funds to make each coupon payment on the Notes.
- Q: Do investors have other risks?
- The Enron CLN II Trust will invest in certain high credit quality investments of different obligors meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities. This risk is mitigated in part by the presence of Certificates (approximately 10% of the issue size) which are subordinated to the Notes.
- Q: Can the Enron CLN II structure be replicated?
- Other than the multiple currencies, the Enron CLN Π is substantially the same as the ECLN transaction from last August. This structure is the result of Citibank's effort to simplify the structured financing programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.
- Who will own the Certificates? O:
- A: The Certificates will be privately placed on an undisclosed basis.

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Financing Summary dated May 2, 2001 Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II") Euro [million)

("Notes")

May 2, 2001

Frequently Asked Questions

- Q: How does the Enron CLN II transaction differ from the ECLN and Yosemite transaction?
- The Enron CLN II structure is substantially similar to the ECLN transaction completed last August and is a simplified version of the Yosemite transaction. The simplification of the structure was designed to help the liquidity of the Notes. The primary differences between the Yosemite and ECLN II structures are:
 - i) Absent an Enron default, Citibank will make all interest payments regardless of defaults on Trust Investments:
 - ii) Trust investments are limited to high credit quality, short-term obligations (Governments, AAA insurance companies, and A-1/P-1 and A+/A1 US, UK and E-11 banks); there are no Enron obligations in the Trust prior to an Enron default;
 - iii) Citibank's rights to settle have been limited to a short time period and the optionality has been restricted; and
 - iv) Much of the flexibility to alter the structure present in Yosemite has been removed in the Enron CLN II structure.
- What is the basic idea behind the Enron Credit Linked Notes II? O:
- The Notes are primarily designed so that the payments made on the Notes are expected to mirror ne Notes are primarily designed so that the psychiatra made of the rotes are expected to improve payments that would be made if the Notes were senior unsecured obligations of Euron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank's fulfillment of its obligations under the Credit
- Why does the Enron CLN II make economic sense? Q:
- Structuring risk is most efficiently priced in the bank market, while pure credit risk is most A: efficiently priced in the capital markets. The Enron CLN II structure allows Citigroup to place pure Enron credit risk in the bond market while keeping the structural risks in the bank market. In addition, the structure allows Enron to extend the tenors of certain structured financings.

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Financing Summary dated May 2, 2001 Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II") Euro [million] ("Notes")

- Q: Why does it make sense to do a Euro ECLN?
- A: The simplicity of the ECLN structure facilitates a wide distribution of a structured note. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.
- Q: Why is Enron doing another structured financing?
- A: Enron is doing another structured financing to take advantage of banks' structuring expertise while broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); the Enron CLN II transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex, strategic value is added by being able to syndicate a variety of risks through structured financings in selected currencies.

 Examples include: contract monetization transactions, synthetic leases, commodity transactions,
 - Examples include: contract monetization transactions, synthetic leases, commodity transactions, minority interest structures.
- A: Enron is undergoing many changes and as it expands its business, it has consistently developed new ways to finance its business in a manner that maximizes the value of the structure for Enron and its investors.
- Q: Why is Enron issuing the ECLN II in multi-currencies?
- A: The simplicity of the Enron CLN structure was a strong factor in the successful issuance of the first Enron CLN. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.
- Q: How does the investor risk in this transaction differ from that in plain corporate debt?
- A: There are three risks to analyze: Enron, Citibank and the Trust Investments.
- Q: Is Enron running out of bank lines?
- A: Enron believes that it has excellent liquidity in and access to the bank market. The Enron CLN II issuance provides Enron with another avenue through which to source funds and expand its

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Financing Summary dated May 2, 2001 Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II") Euro (mill ("Notes") million)

sources of capital.

- How does this transaction affect Enron financial statements? Q;
- The issuance of the Notes will have no impact on Enron's balance sheet. The transaction is A: designed to allow Enron to restructure and lengthen structured financings. The reporting of any underlying transaction will not be affected by the Notes.
- What is Citigroup's interest? Q:
- Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this global relationship, and the Enron CLN II transaction allows Citigroup to continue executing sophisticated financings with Enron in Europe and the US while managing its credit exposure. In addition, the Enron CLN II Trust is a great follow up to ECLN that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.
- What are the benefits to investors? Q:
- Investors receive a premium for taking Euron credit in a lightly structured form. A:
- What kind of assets can the Enron CLN II Trust hold? O:
- The Trust Investments are limited to certain high credit quality investments. For Enron Euro CLN, the Trust Investments consist of:
 - i) Euro-denominated fixed period deposits, promissory notes or commercial paper of U.S. money center banks or EU Member State commercial banks with short term ratings of A-1/P-1 and long term ratings of A+/A1 that mature within 90 days of issuance,
 - ii) Euro-denominated promissory notes of or GICs from AAA/Aaa insurance companies that mature within 365 days of issuance or
 - iii) Any domestically issued debt security issued by an EU Member State rated AAA/Aaa, or any sovereign jurisdiction with a foreign currency issuer credit rating of AAA/Aaa, in each case denominated in Euros.

Trust Investments must be payable in Euros, bear a stated rate of interest and must mature prior to the maturity of the Notes. Each Trust Investment will not be subject to withholding tax as of its acquisition date unless the issuer is required to fully gross-up the Trust for such withholding tax. The Trust Investments held by the Collateral Agent will not at any time represent obligations of

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Financing Summary dated May 2, 2001 Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")

Euro [million] ("Notes")

more than nine separate obligors. If the Notes are not in default, Noteholders will not know the Trust Investments but such information will be provided to the Rating Agencies.

- Q: Does each Trust have separate Trust Investments?
- A: Yes. The assets of each Trust will be solely for the benefit of the related investors.
- Q: What happens if any of the Trusts goes into default?
- A: The offerings are not cross-defaulted or cross-collateralized. The Credit Events are identical for each offering. Therefore, it is likely that all Notes will be in default at the same time. The collateral for each Trust remains separate.
- Q: What is investors' exposure to Enron?
- A: The Notes are designed to mimic the risk profile of Enron senior unsecured obligations. Following any payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.
- Q: What is investors' exposure to Citibank?
- A: Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank receives all payments from Trust Investments and is obligated to deliver to the Trust sufficient funds to make each coupon payment on the Notes.
- Q: Do investors have other risks?
- A: The Enron CLN II Trust will invest in certain high credit quality investments of different obligors meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities. This risk is mitigated in part by the presence of Certificates (approximately 10% of the issue size) which are subordinated to the Notes.
- Q: Can the Enron CLN II structure be replicated?
- A: Other than the multiple currencies, the Enron CLN II is substantially the same as the ECLN transaction from last August. This structure is the result of Citibank's effort to simplify the

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Financing Summary dated May 2, 2001

Enron Euro Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")

Euro [million] ("Notes")

structured financing programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.

- Q: Who will own the Certificates?
- A: The Certificates will be privately placed on an undisclosed basis.

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Financing Summary dated May 2, 2001
Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")

Sterling [million]

May 2, 2001

Frequently Asked Questions

- Q: How does the Enron CLN II transaction differ from the ECLN and Yosemite transaction?
- A: The Enron CLN II structure is substantially similar to the ECLN transaction completed last August and is a simplified version of the Yosemite transaction. The simplification of the structure was designed to help the liquidity of the Notes. The primary differences between the Yosemite and ECLN II structures are:
 - i) Absent an Enron default, Citibank will make all interest payments regardless of defaults on Trust Investments;
 - ii) Trust Investments are limited to high credit quality, short-term obligations (Governments, AAA insurance companies, and A-I/P-1 and A+/A1 US, UK and E-11 banks); there are no Enron obligations in the Trust prior to an Enron default;
 - iii) Citibank's rights to settle have been limited to a short time period and the optionality has been restricted; and
 - iv) Much of the flexibility to alter the structure present in Yosemite has been removed in the Enron CLN II structure.
- Q: What is the basic idea behind the Enron Credit Linked Notes II?
- A: The Notes are primarily designed so that the payments made on the Notes are expected to mirror payments that would be made if the Notes were senior unsecured obligations of Enron. However, the inclusion of Citibank credit risk slightly alters the risk profile in that the interest component of the cash flows is in part dependent upon Citibank's fulfillment of its obligations under the Credit Swap.
- Q: Why does the Enron CLN II make economic sense?
- A: Structuring risk is most efficiently priced in the bank market, while pure credit risk is most efficiently priced in the capital markets. The Enron CLN II structure allows Citigroup to place pure Enron credit risk in the bond market while keeping the structural risks in the bank market. In addition, the structure allows Enron to extend the tenors of certain structured financings.

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Permanent Subcommittee on Investigation
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Financing Summary dated May 2, 2001 Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")

Sterling [million] ("Notes")

- Q: Why does it make sense to do a Sterling ECLN?
- A: The simplicity of the ECLN structure facilitates a wide distribution of a structured note. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.
- Q: Why is Enron doing another structured financing?
- A: Enron is doing another structured financing to take advantage of banks' structuring expertise while broadening Enron's sources of capital. Banks are willing to do structured financings for limited tenors (typically three years); the Enron CLN II transaction will allow Enron to continue to execute structured financings with banks while extending the tenors of the deals by placing the credit risk in the capital markets. Enron believes that, as its capital structure is diverse and complex; strategic value is added by being able to syndicate a variety of risks through structured financings in selected currencies.
 - Examples include: contract monetization transactions, synthetic leases, commodity transactions, minority interest structures.
- A: Enron is undergoing many changes and as it expands its business, it has consistently developed new ways to finance its business in a manner that maximizes the value of the structure for Enfon and its investors.
- Q: Why is Enron issuing the ECLN II in multi-currencies?
- A: The simplicity of the Enron CLN structure was a strong factor in the successful issuance of the first Enron CLN. To achieve the same economic benefit of bifurcating risks in the US market and broaden its financing sources globally, Enron CLN II is being marketed to Euro, Sterling and US investors.
- Q: How does the investor risk in this transaction differ from that in plain corporate debt?
- A: There are three risks to analyze: Enron, Citibank and the Trust Investments.
- Q: Is Enron running out of bank lines?
- A: Enron believes that it has excellent liquidity in and access to the bank market. The Enron CLN II issuance provides Enron with another avenue through which to source funds and expand its

2

CITI-SPSI 0048937

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than customers of the firm that are QBISs or non-US person who would be permitted to purchase securities in reliance on Regulation S, symmethers of the firm that are QBISs or non-US person who would be permitted to purchase securities in reliance on Regulation S, sym

Financing Summary dated May 2, 2001 Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II") Sterling [million] ("Notes")

sources of capital.

- Q: How does this transaction affect Enron financial statements?
- A: The issuance of the Notes will have no impact on Enron's balance sheet. The transaction is designed to allow Enron to restructure and lengthen structured financings. The reporting of any underlying transaction will not be affected by the Notes.
- Q: What is Citigroup's interest?
- Enron is an important customer of Citigroup. Citigroup wants to continue to strengthen this global relationship, and the Enron CLN II transaction allows Citigroup to continue executing sophisticated financings with Enron in Europe and the US while managing its credit exposure. In A: addition, the Enron CLN II Trust is a great follow up to ECLN that provides Citigroup a vehicle through which it can continue expanding its penetration into the credit derivatives market.
- Q: What are the benefits to investors?
- Investors receive a premium for taking Enron credit in a lightly structured form. A:
- Q: What kind of assets can the Enron CLN II Trust hold?
- A: The Trust Investments are limited to certain high credit quality investments. For Enron Sterling CLN, the Trust Investments consist of:
 - i) sterling-denominated fixed period deposits, promissory notes or commercial paper of U.S. money center banks, EU Member State commercial banks or any credit institution licensed to carry on a deposit taking business in the UK that is a member of the Bankers' Clearing House with short term ratings of A-1/P-1 and long term ratings of A+/A1 that mature within 90 days of issuance,
 - ii) sterling-denominated promissory notes of or GICs from AAA/Aaa insurance companies that mature within 365 days of issuance or
 - iii) Gilts.

Trust Investments must be payable in sterling, bear a stated rate of interest and must mature prior to the maturity of the Notes. Each Trust Investment will not be subject to withholding tax as of its acquisition date unless the issuer is required to fully gross-up the Trust for such withholding tax. The Trust Investments held by the Collateral Agent will not at any time represent obligations of

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Financing Summary dated May 2, 2001 Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II") Sterling [million]

(Notes)

more than nine separate obligors. If the Notes are not in default, Noteholders will not know the Trust Investments but such information will be provided to the Rating Agencies.

- Q: Does each Trust have separate Trust Investments?
- Yes. The assets of each Trust will be solely for the benefit of the related investors. A:
- What happens if any of the Trusts goes into default?
- The offerings are not cross-defaulted or cross-collateralized. The Credit Events are identical for A: each offering. Therefore, it is likely that all Notes will be in default at the same time. The collateral for each Trust remains separate.
- Q: What is investors' exposure to Enron?
- The Notes are designed to mimic the risk profile of Euron senior unsecured obligations. Following any payment failure, the structure is designed to give investors risk to Enron senior unsecured obligations that rank the same as borrowed money. Therefore, in all cases, investors bear general credit risk to Enron senior unsecured obligations.
- What is investors' exposure to Citibank? · Q:
- Investors have performance and credit risk to Citibank (Aa2/AA-). Through a swap, Citibank A: receives all payments from Trust Investments and is obligated to deliver to the Trust sufficient funds to make each coupon payment on the Notes.
- Do investors have other risks? Q:
- The Emon CLN II Trust will invest in certain high credit quality investments of different obligors meeting the eligibility criteria. Investors bear default risk of but not price risk to these securities. This risk is mitigated in part by the presence of Certificates (approximately 10% of the issue size) which are subordinated to the Notes.
- Can the Enron CLN II structure be replicated? O:
- Other than the multiple currencies, the Enron CLN II is substantially the same as the ECLN transaction from last August. This structure is the result of Citibank's effort to simplify the 4

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Financing Summary dated May 2, 2001
Enron Sterling Credit Linked Notes Trust Senior Notes Offering ("Enron CLN II")
Sterling (million)
("Notes")

structured financing programs which Enron has previously placed in the market. Citigroup believes this simplicity will be favorably accepted by the market. This structure can be replicated and used to the benefit of other capital users.

- Q: Who will own the Certificates?
- The Certificates will be privately placed on an undisclosed basis.

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Unknown

From:

Swanson, Timothy [FI] Wednesday, June 27, 2001 7:12 PM Francois, Tom [CRRM] FW: Prepay Diagram

Sent: To: Subject:



Citi Prepay Project Schematic ...

more....the trial diagram....

----Original Message---From: Michael.Garberding@enron.com [mailto:Michael.Garberding@enron.com]

Sent: Wednesday, June 27, 2001 7:04 PM
To: timothy.swanson@ssmb.com"
IMCEANOTES-+22Swanson+2C+20Timothy+20+5BFI+5D+22+20+3Ctimothy+2Eswanson+
40ssmb-12Ecom+3E+40ENRON, steve.wagman@ssmb.com"
Cc: Lisa.Bills@enron.com; Eric.Moon@enron.com; V.Charles.Weldon@enron.com
Subject: Prepay Diagram

Included is a schematic that details the structure of the prepay. The amounts including in the structure include the following items:

The Nymex Mid for Jan. '02 contract was priced as of close today (6/27/01)

The assumption that the deal began on 6/28/01 and settled on 12/27/01

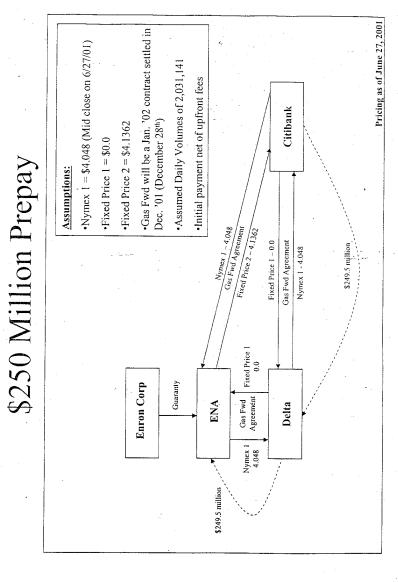
The assumption that six-month libor rate plus spread would be used for the interest component

Please let me know if you have any questions or other comments. Thanks again for your help. $\ \ \,$

Michael . 713-853-1864

(See attached file: Citi Prepay Project Schematic 6-27-01.ppt)

Permanent Subcommittee on Investigations EXHIBIT #189cc



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CITI-SPSI 0076530

Unknown

From: Sent: To: Subject: Nepveux, Michael (CITI) Thursday, June 28, 2001 11:14 AM Wagman, Steve [FI] RE: Enron

They confirmed there is an earnings impact, except that it is neutralized by offsetting trades (which don't of course require cash from Enron up-front).

----Original Message---From: Wagman, Steve SSB. [SMTP:steve.wagman@ssmb.com]
Sent: Wednesday, June 27, 2001 8:32 PM
To: michael.nepveux; Wagman, Steve SSB.
Cc: Wagman, Steve SSB.
Subject: Re: Enron

I don't think earnings impact .

From: Nepveux, Michael (CITI) <michael.nepveux@citicorp.com>
To: steve.wagman@citicorp.com,ssteve.wagman@citicorp.com>
Sent: Wed Jun 27 20:56:38 2001
Subject: Enron

How can this trade not have an earnings impact to Enron? The mark-to-market on the two transactions is the PV of negative \$257.5MM. Doesn't this reduce second quarter earnings by that amount?

CITI-SPSI 0050736

Permanent Subcommittee on Investigations EXHIBIT #189dd

To:

Dan O. Boyle

From:

Travis Winfrey

Date:

September 20, 2001

Subject:

Citibank / Delta Prepay Transactions

As you know, some concerns with respect to the structure of the prepay transactions associated with the Credit Linked Notes surfaced at the end of June.

To clarify the issues, we held a number of discussions, engaging representatives from Finance, Legal, Accounting, Credit and EGM Risk Management. The team reached the following conclusions:

- All prepays relating to the CLN transactions in August 2000 and May 2001 were booked as swaps. The embedded options were not booked.
- The methodology for booking the transactions in this fashion was based on EGM Risk Management's interpretation of the prepay swap confirmations. This interpretation viewed the prepay between ENA and Citi as a swap and a call, and the prepay between ENA and Delta as a put. EGM Risk Management recognized that booking the swap and the call (ENA and Citi) and the put (ENA and Delta), would result in P/L volatility due to the difference in extrinsic value between the put and call. Therefore, the embedded options were not booked. In addition, this methodology did not accurately reflect the credit exposures among the parties.
- The intent of the prepay transactions was to view each leg as a swap with an embedded
 call. In fact, the formulas in the confirmations are drafted as swaps with embedded call,
 however the formula representing the ENA / Delta leg can mathematically be distilled to a
 put.
- The economic result of the two methodologies is the same, however, if both legs of the
 prepays are booked as swaps and calls, there is no adverse P/L effect and the credit
 exposure among the parties is represented accurately.
- EGM Risk Management agreed to rebook both the ENA / Delta leg and the ENA / Citi leg
 of the August 2000 and May 2001 transactions as a swap with an embedded call, all
 disciplines concurred.

Cc: Ben Glisan
Barry Schnapper
Joe Deffner
Doug McDowell
Scott Ernest
Mark Fondren
Mary Cook
Gareth Bahlmann
Clint Walden
Ryan Surek
Tanya Rohauer
Jaime Araoz

Permanent Subcommittee on Investigations
EXHIBIT #189ee

ECa000078826

Unknown

From:

To:

Wagman, Steve [FI] Tuesday, November 13, 2001 5:51 PM Deards, Paul B [FI]

Subject:

ene prepaid update...fyi

Importance:

High

the loans group has agreed to let enron out of paying half of the libor breakage (about 250k) on the early termination of the prepaid. Enron successfully negotiated this with them-arguing that we are forcing them to unwind early, I had told enron that we could not do this as it was true economic loss.

this is not forgoing profit...this is true loss the desk will have to pay to Treasury for breaking 6mo libor of 3.83% 45 days early when libor is 2%.

If we got the whole 500k-we would have been kept whole.

I will attempt to get loans to transfer money to the desk to cover this loss....

thoughts??

Steven A. Wagman Managing Director SalomonSmithBarney

ph (212) 723-6449 fax (212) 723-8610

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Permanent Subcommittee on Investigations EXHIBIT #189ff

Unknown

From:

Angelini, Amanda [FI]

Sent: To: Subject: Angelini, Amanda [1] Wednesday, December 05, 2001 7:07 AM Dickey, John W [FI]; Caplan, Rick [FI] Fw: AXA Enron Credit Linked Note

Fyi.

----Original Message---From: Lepic, Jean [FI] <j181162@imceu.eu.ssmb.com>
To: Charles, Peter [FI] <pd82020@imceu.eu.ssmb.com>
CC: Angelnii, Amanda [FI] <aa19374@imcam.ssmb.com>; Amias, Jeremy [FI] <ja81836
@imceu.eu.ssmb.com>; Colligan, John [FI] <jc02426@imceu.eu.ssmb.com>; Recoder, Andres [FI]
<AR13153@imceu.eu.ssmb.com>; Planquart, Michel D [FI] <mp82894@imceu.eu.ssmb.com>
Sent: Wed Dec 05 05:31:58 2001
Subject: AXA Enron Credit Linked Note

Jean-Pierre Leoni head of credit products in Europe called me about the Enron CLN in Euro issued An May, AXA IM owns 20MM that they bought through AXA The Hague. At the time AXA Paris did not buy the CLN, although they liked the credit they did not like the structure.

He compared the Enron CLN with CP Kelkoo (a Euro HY bond issued by Lehman last year that published very bad results immediately after the launch, Lehman private equity fund had a big position in CP Kelkoo). They think that we have used privileged information. He wants to organise a conference call with our DCM and stucturing team to get more information on the conditions under which this transaction was done.

Jean-G. LEPIC Citigroup - Schroder Salomon Smith Barney 01:00:05 5 51 60 http://direct.sbi.com

Permanent Subcommittee on Investigations
EXHIBIT #189gg

Bernstein, Saul

Lee, Andrew P. SSB. [andrew.p.lee@ssmb.com]
Wednesday, November 21, 2001 4:19 PM
Bernstein, Saul
Lee, Andrew P. SSB.; Cougle, Foster SSB.; Miranda, Axel A. SSB.

From: Sent: To: Cc: Subject:

Hi Saul,

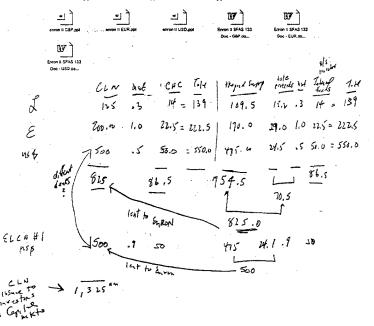
Great seeing you yesterday!

Enclosed are the documents for the Enron II trades that we have owed you for a while (they are almost identical to the Enron I document). Please let us know if you have any questions or comments.

Andy

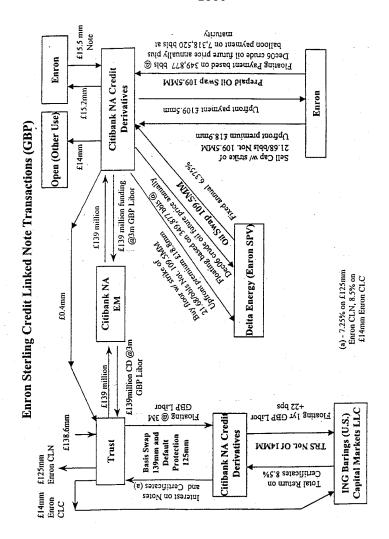
<<Enron II SFAS 133 Doc - USD.doc>> <<Enron II SFAS 133 Doc - EUR.doc>> <<Enron II SFAS 133 Doc - GBP.doc>>

<<enron II USD.pp>> <<enron II EUR.ppt>> <<enron II GBP.ppt>>



Permanent Subcommittee on Investigations

EXHIBIT #189hh



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Enron Sterling Credit Linked Notes Trust Certificates SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, 14mm GBP of Enron Credit Linked Certificates ("Certificates") were issued by a trust (that is consolidated onto the books of Citibank NA) and were purchased by ING Baring Capital Markets. The Certificates pay an 8.5% coupon and are subject to redemption upon an Enron credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS) whereby ING Baring Capital Markets pays the total return on the same Certificates back to Citibank NA in return for 1 year GBP Libor plus 22 bps.

(See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates attributable to the benchmark interest rate of 1 year GBP Libor over the tenor of the TRS.

Derivative Hedging Instrument
The instrument used is a TRS with a notional of 14 million GBP and a maturity date of May 24, 2006 (which matches the maturity of the Certificates). In this transaction, Citibank NA receives the total return of the Certificates and pays 1 year GBP Libor + 22bps to ING Baring Capital Markets. The TRS is valued by GK which is a system that has been validated by risk management.

Hedged Item
The hedged item is the 14mm GBP Certificates issued by the Enron Sterling Credit Linked Notes Trust that is consolidated onto the books of Citibank NA. As a result, the Certificates are effectively a liability of Citibank NA. The Certificates have an 8.5% coupon and a maturity date of May 24, 2006. The Certificates are also valued by GK.

Assessment of Hedge Effectiveness
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of the hedging instrument (the TRS). Additionally, the 8.5% coupons are matched in the two instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In the scenario of an Enron credit event, assets deposited in the Enron Sterling Credit Linked Notes Trust would be used to redeem the Certificates. Assuming no impairment in the value of these

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assets, the Certificates would be redeemed at par (14 million GBP) with no gain or loss and the TRS would also be settled without a gain or a loss.

In the scenario of no credit event occurring but if there is an impairment in the value of the trust assets, the gain that we would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. For example, if the trust assets used in redeeming the Certificates at maturity were worth only 13 million GBP there would be a gain of 1 million GBP for us in extinguishing the liability at less than 14 million GBP. However, this gain would be offset by a I million GBP loss incurred in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date Because the critical terms are
 matched for the full life of the Certificates, we have effectively swapped to the floating rate of I year GBP Libor.
- Assessment of Ongoing Prospective Effectiveness The relationship of the TRS and the Certificates being fully offsetting will be constant throughout the life of the transaction. We will periodically check to verify that the legal rights and obligations under the contracts for all parties are not changed.
- Retrospective Assessment of Effectiveness Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.
- Measurement of Ineffectiveness Period to period dollar offset method will be used. Actual measurements of ineffectiveness is based on the extent to which exact offset is not achieved. (Paragraph 22 of FAS 133 and DIG Issue E-7)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis.
Additionally, a more detailed review is performed each month-end.

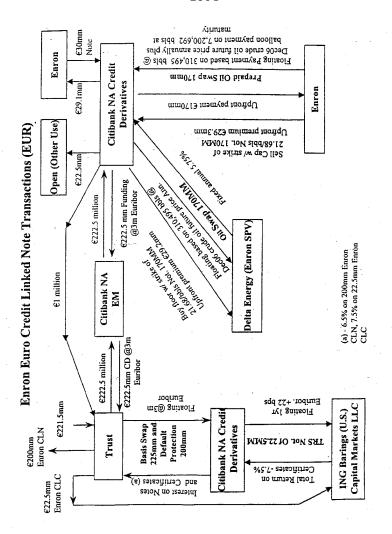
Approvals

		Signature	Date	
Risk Manager	N/A - The models used have been reviewed by risk management.			
Business Treasurer	N/A - Treasury unit is not involved in structuring the hedging relationship			
Financial Control	Andy Lee			

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Business Manager	Doug Warren	
Business Accounting Policy/Advisory	Saul Bernstein	
Corporate Accounting Policy		

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Enron Euro Credit Linked Notes Trust Certificates SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, 22.5mm EUR of Enron Credit Linked Certificates ("Certificates") were issued by a trust (that is consolidated onto the books of Citibank NA) and were purchased by ING Barring Capital Markets. The Certificates pay a 7.5% coupon and are subject to redemption upon an Enron credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS) whereby ING Baring Capital Markets pays the total return on the same Certificates back to Citibank NA in return for 1 year Euribor plus 22 bps.

(See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates attributable to the benchmark interest rate of 1 year Euribor over the tenor of the TRS.

Derivative Hedging Instrument
The instrument used is a TRS with a notional of 22.5 million EUR and a maturity date of May
24, 2006 (which matches the maturity of the Certificates). In this transaction, Citibank NA receives the total return of the Certificates and pays I year Euribor + 22bps to ING Baring Capital Markets. The TRS is valued by GK which is a system that has been validated by risk management.

Hedged Item

The hedged item is the 22.5mm EUR Certificates issued by the Enron Euro Credit Linked Notes
Trust that is consolidated onto the books of Citibank NA. As a result, the Certificates are effectively a liability of Citibank NA. The Certificates have a 7.5% coupon and a maturity date of May 24, 2006. The Certificates are also valued by GK.

Assessment of Hedge Effectiveness
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of the hedging instrument (the TRS). Additionally, the 7.5% coupons are matched in the two instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In the scenario of an Enron credit event, assets deposited in the Enron Euro Credit Linked Notes Trust would be used to redeem the Certificates. Assuming no impairment in the value of these

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assets, the Certificates would be redeemed at par (22.5 million EUR) with no gain or loss and the TRS would also be settled without a gain or a loss.

In the scenario of no credit event occurring but if there is an impairment in the value of the trust assets, the gain that we would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. For example, if the trust assets used in redeeming the Certificates at maturity were worth only 21.5 million EUR there would be a gain of 1 million EUR for us in extinguishing the liability at less than 22.5 million EUR. However, this gain would be offset by a 1 million EUR loss incurred in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date Because the critical terms are
 matched for the full life of the Certificates, we have effectively swapped to the floating rate of 1 year Euribor.
- Assessment of Ongoing Prospective Effectiveness The relationship of the TRS and the
 Certificates being fully offsetting will be constant throughout the life of the transaction. We
 will periodically check to verify that the legal rights and obligations under the contracts for
 all parties are not changed.
- Retrospective Assessment of Effectiveness Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.
- Measurement of Ineffectiveness Period to period dollar offset method will be used. Actual measurements of ineffectiveness is based on the extent to which exact offset is not achieved. (Paragraph 22 of FAS 133 and DIG Issue E-7)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis.
Additionally, a more detailed review is performed each month-end.

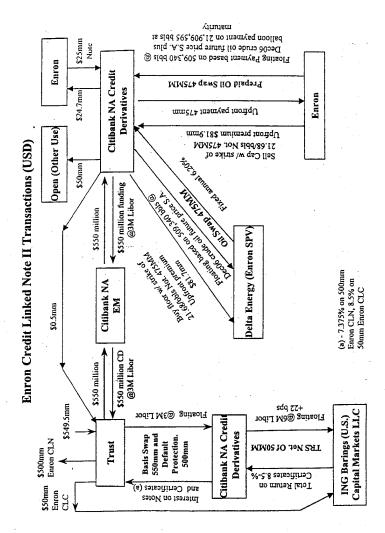
Approvals

	\$ - F	Signature	Date
us re	N/A - The models used have been reviewed by risk management.		
Business Treasurer	N/A - Treasury unit is not involved in structuring the hedging relationship	=	
Financial Control	Andy Lee		

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Business Manager	Doug Warren	
Business Accounting Policy/Advisory	Saul Bernstein	
Corporate Accounting Policy		

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CITI-SPSI 0049675

Enron Credit Linked Notes Trust II Certificates SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:

As part of a structured transaction, \$50mm of Enron Credit Linked Certificates ("Certificates") were issued by a trust (that is consolidated onto the books of Citibank NA) and were purchased by ING Baring Capital Markets. The Certificates pay an 8.5% coupon and are subject to redemption upon an Enron credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS) whereby ING Baring Capital Markets pays the total return on the same Certificates back to Citibank NA in return for 6 month Libor plus 22 bps.

(See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates attributable to the benchmark interest rate of 6 month USD Libor over the tenor of the TRS.

Derivative Hedging Instrument
The instrument used is a TRS with a notional of \$50 million and a maturity date of May 15, 2006 (which matches the maturity of the Certificates). In this transaction, Citibank NA receives the total return of the Certificates and pays 6 month Libor + 22bps to ING Baring Capital Markets. The TRS is valued by GK which is a system that has been validated by risk management.

Hedged Item
The hedged item is the \$50mm Certificates issued by the Enron Credit Linked Notes Trust II that is consolidated onto the books of Citibank NA. As a result, the Certificates are effectively a liability of Citibank NA. The Certificates have an 8.5% coupon and a maturity date of May 15, 2006. The Certificates are also valued by GK.

Assessment of Hedge Effectiveness
The notional and the maturity date of the hedged item (the Certificates) match exactly to that of the hedging instrument (the TRS). Additionally, the 8.5% coupons are matched in the two instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In the scenario of an Enron credit event, assets deposited in the Enron Credit Linked Notes $Trust \Pi$ would be used to redeem the Certificates. Assuming no impairment in the value of these assets, the Certificates would be redeemed at par (\$50 million) with no gain or loss and the TRS would also be settled without a gain or a loss.

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In the scenario of no credit event occurring but if there is an impairment in the value of the trust In the scenario of no credit event occurring but it there is an impairment in the value of the rust assets, the gain that we would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. For example, if the trust assets used in redeeming the Certificates at maturity were worth only \$49 million there would be a gain of \$1 million for us in extinguishing the liability at less than \$50 million. However, this gain would be offset by a \$1 million loss incurred in settling the TRS.

- Assessment of Prospective Effectiveness at Inception Date Because the critical terms are matched for the full life of the Certificates, we have effectively swapped to the floating rate of 6 month USD Libor.
- Assessment of Ongoing Prospective Effectiveness The relationship of the TRS and the
 Certificates being fully offsetting will be constant throughout the life of the transaction. We
 will periodically check to verify that the legal rights and obligations under the contracts for all parties are not changed.
- Retrospective Assessment of Effectiveness Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.
- Measurement of Ineffectiveness Period to period dollar offset method will be used. Actual
 measurements of ineffectiveness is based on the extent to which exact offset is not achieved.
 (Paragraph 22 of FAS 133 and DIG Issue E-7)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis.
Additionally, a more detailed review is performed each month-end.

Approvals

The second second		Signature	Date
Risk Manager	N/A - The models used have been reviewed by risk management.		
Business Treasurer	N/A - Treasury unit is not involved in structuring the hedging relationship		
Financial Control	Andy Lee		
Business Manager	Doug Warren		

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Policy/Advisory	 · i	
Corporate Accounting		
Policy		

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WATER Steday CLN Trust BB25 Am ph 1 3 ded from strong.

• New orther bot some structure Look at holse Projeto .: () EN- CLN THISTIL 2) 3) Enten Eulo CLA Trast The safe counting is applied on the prepaid oil swap since it is essentially a loan and does not qualify for treatment as a derivative per Discher. The value of the prepaid on a count and includes the value of the accrued interest. The promissory note is treated similarly. Account and includes the value of the accrued interest. The promissory note is treated similarly. Account and includes the value of the accrued interest. The promissory note is treatment as a derivative depth of the accrued interest. The promissory note is treatment as a derivative depth of the accrued interest. The promissory note is treatment as a derivative depth of the accrued interest. The promissory note is treatment as a derivative depth of the accrued interest. The promissory note is treatment as a derivative of the county of the treatment as a derivative of the county is booked in a revaluation gain account and includes the value of the accrued interest. The promissory note is treated similarly. Account accident was in the CLN is bifurcated. However, given the terms of the transaction, promiss of the transaction of the promissory note in the county of the promissory note is the county of the promissory note in the county of the promissory of the promissory note in the county of the promissory of t chasification of prepared surprised surprised surprised sure 1 The total return swap with Royal Bank of Canada is treated as a Fair Value hedge to the Certificates. The effectiveness of this hedge is monitored by trade support/financial control on an on-going basis, $\gamma, r, \beta: \beta + \gamma, r \neq 0$. The swap fees that we receive are present valued and a liquidity/termination MVA is applied (similar to the Yosemite trades). For RBC purposes, the prepaid swap and promissory note are given a zero risk weight due to application of cash collateralization rules. (The CLN investors effectively take all of the Euron credit risk since Citibank has the ability to deliver the prepaid swap and the promissory note in exchange for the trust assets in the event of an Euron default). Sind, Chilage Training Mercust he CLN Issuade Protects (which is led to Entin un 475 prejaid sump out (See Next pase for Summary of the Flores) +25 mote (face) (24.1 (154) as it is a disct of

Permanent Subcommittee on Investigations
EXHIBIT #189ii

Enron Credit Linked Notes Trust Certificates SFAS 133 Fair Value Hedge Documentation

Brief Overview of the Transaction:
As part of a structured transaction, \$50mm of Enron Credit Linked Certificates ("Certificates") were issued by a trust (that is consolidated onto the books of Citibank NA) and were purchased by Royal Bank of Canada. The Certificates pay a 9% coupon and are subject to redemption upon → S-Appeal to LIBOR+ 15 39 under TRS an Enron credit event.

As a hedge to this fixed rate liability, Citibank NA entered into a total return swap (TRS) whereby Royal Bank of Canada pays the total return on the same Certificates back to Citibank NA in return for 6 month Libor plus 18 bps. From a consolidated Citibank/Trust perspective, the NA in return for 6 month from plus 16 ops. I tout a consolidated reporting entity (Citibank is viewed the owner of the Trust because it retains the equity risk in the Trust by having written the TRS) will not be able to repay the certificate in the plus of the consolidated propring entity (a seets (prepaid swan)). event of an Enron default since all of the consolidated reporting entity's assets (prepaid swap asset and note receivable) represent credit extensions to Enron. (See attached diagram)

Risk Management Objective and Strategy
The risk that we are hedging is the risk of overall changes in fair value of the Certificates over the tenor of the TRS. In the event of a Enron default, the consolidated Citibank/Trust reporting entity will not be able to repay the certificates. An Enron default, however, will also cause the Trust to collapse and for the consolidated Citibank/Trust reporting entity to deliver its only assets, the prepaid swap and, \$475MM, and Note receivable, \$24.1MM to the investors in the Credit Linked Note (CLN) issued by the Trust. The remaining assets of the consolidated Citibank/Trust reporting entity, \$50MM of cash or cash equivalents, will be available to settle the TRS with RBOC. Settlement of the TRS would extinguish the indebtedness under the Credit Linked Certificates (CLC) as RBOC is both the holder of the CLC and the counter-party in the TRS. Therefore, the loss on the TRS settlement would be offset dollar for dollar by the gain (extinguishment) on the CLC. (THES 4150 SWHPS 91. FYEL to LIBER + 18 6P)

Derivative Hedging Instrument
The instrument used is a TRS with a notional of \$50 million and a maturity date of August 15, 2005 (which matches the manurity of the Certificates). In this transaction, Citibank NA receives the total return of the Certificates and pays 6 month Libor + 18bps to Royal Bank of Canada. The TRS is valued by GK which is a system that has been validated by risk management.

The hedged item is the \$50mm Certificates issued by the Enron Credit Linked Notes Trust that is consolidated onto the books of Citibank NA. As a result, the Certificates are effectively a liability of Citibank NA. The Certificates have a 9% coupon and a maturity date of August 15, 2005. The Certificates are also valued by GK.

This is a Trutt statement because in the control of under the DS purchases by Citibank from the Trust (which simply on south the DS embedded in the CLN issued to invastors), Citibank mill deliner the pregnal sumpit 4475 mm to Note of included from the CLN issued to the trust in forgreeness of the 3550 mm placement the Trust that with Ctibank imm. Therefore, he Trust in it is to sake to the 3550 mm placement the Trust that with Ctibank imm. Therefore, he Trust in illustrated by the Trust has with the 150 mm CLC. The Gain (reduction of Tourt liability) will be tilly offer by fore under the Trust in the Trust in the Comment of the

Permanent Subcommittee on Investigations EXHIBIT #189ii

The notional and the maturity date of the hedged item (the Certificates) match exactly to that of the hedging instrument (the TRS). Additionally, the 9 % coupons are matched in the two instruments and would offset each other.

Any realized gains or losses on the Certificates would be offset by gains or losses on the TRS. In the scenario of an Enron credit event, remaining assets (\$50MM) in the consolidated Citibank/Trust reporting entity would be used to effect (via settlement of the TRS) the discharge of indebtedness under the Certificates. Assuming no decline in the value of these assets, the Certificates would be redeemed at par (\$50 million) with no gain or loss and the TRS would also be settled without a gain or a loss.

At maturity of the transaction, in the scenario of no credit event occurring but there is a decrease in the value of the trust assets, the gain that Citibank/Trust would have in redeeming the Certificates at an amount below par would be offset by a loss on the TRS. (The decline in value is for the account of RBOC as RBOC is the owner/equity investor in the Trust, by virtue of investing in the certificates.) For example, if the trust assets used in redeeming the Certificates at maturity were worth only \$49 million there would be a gain of \$1 million for us in extinguishing. the liability at less than \$50 million. However, this gain would be offset by a \$1 million loss incurred in settling the TRS.

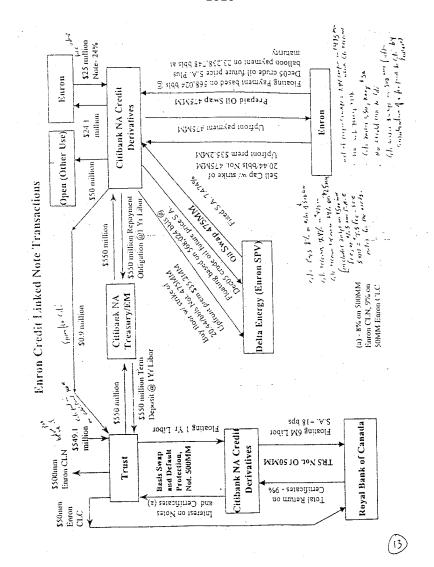
- Assessment of Prospective Effectiveness at Inception Date Because the critical terms are matched for the full life of the Certificates, we have effectively swapped to the floating rate of 6 month USD Libor. AS explained, there is dollar for dollar offset between the settlement of the TRS and the extinguishing of indebtedness under the CLC.
- Assessment of Ongoing Prospective Effectiveness The relationship of the TRS and the Certificates being fully offsetting will be constant throughout the life of the transaction. We will periodically check to verify that the legal rights and obligations under the contracts for all parties are not changed. The short-cut method may not be used because SFAS 133 only allows this method for interest rate swap hedge instruments. The change in period to period fair value of the TRS and the CLC (required to be MTM as the hedged item in fair value hedging relationship) will be the basis for ongoing assessment of effectiveness.
- Retrospective Assessment of Effectiveness Period to period dollar offset method will be used. We expect dollar offset to net to zero at all times.
- Measurement of Ineffectiveness Period to period dollar offset method will be used. Actual measurements of ineffectiveness is based on the extent to which exact offset is not achieved. (Paragraph 22 of FAS 133 and DIG Issue E-7)

Operational and Accounting Controls
In analyzing P&L, trade support reviews the valuation of these two deals on a daily basis.
Additionally, a more detailed review is performed each month-end.

Approvais

		Signature	Date
Risk Manager	N/A - The models used have been reviewed by risk		
Business Treasurer	management. N/A - Treasury unit is not involved in structuring the hedging relationship		
Financial Control	Andy Lee		
Business Manager	Doug Warren		
Business Accounting Policy/Advisory	Saul Bernstein		
Corporate Accounting Policy	DIENZ BUHCLIEUT IS		

In my Hely Program



Enron Credit Linked Notes Trust Certificates SFAS 133 Fair Value Hedge Documentation Addendum

The total return swap with Royal Bank of Canada was terminated and replaced with a similar swap with ING Baring Capital Markets. The terms are identical except that Citibank NA pays 6 month Libor plus 20 bps to ING Baring Capital Markets (instead of 18 bps).

CONFIDENTIAL

Moser, Eric K.

 From:
 Moser, Eric K.

 Sent:
 Tuesday, November 02, 1999 4:29 PM

 To:
 'Joanna Bodder (M&C)'

 Cc:
 Bill Sullivan (SSB)', Walker, Andrew R.

As we discussed on the phone this afternoon, our clients Salomon Smith Barney and Citibank, N.A. have proposed that Delta Energy Corporation (*Deltat') enter into a series of transactions with Citibank and an affiliate of Enron Corporation. Julian Reddyhough has prepared and sent to Bill Sullivan of Citibank preliminary drafts of board minutes. Maples and Calder legal opinion and Director's Certificate relating to some portions of this transaction.

As part of the tax and accounting analysis for our transactions, we need to know the following about Delta:

- 1. Transactions and Activities.
 - a. Is Delta currently party to any other transactions? If so, please list them and describe any contracts or similar arrangements that Delta is party to.
 - b. Has Delta been party to transactions in the past? If so, please list them and describe any contracts or similar arrangements that Delta was party to.
 - c. What are Delta's activities currently?
- 2. Assets.
 - Please list the assets that Delta currently owns.
 - b. Please list the assets that Delta has owned in the past.
- 3. Capitalization.

We have seen in proposed documents prepared by Julian Reddyhough that the authorized share capital of Delta Energy Corporation is U.S.\$900,000 (900,000 ordinary shares of U.S.\$1.00), of which 1,000 shares of which have been issued and are registered in the name of "Grand Commodities Corporation".

Please confirm that this is correct.

Also, please provide additional information concerning Grand Commodities Corporation ("Grand"). What kind of entity is Grand? Where is Grand organized? What is its capitalization?

4. United States Taxation

We intend to make an election on IRS Form \$332 to treat Delta as a pass-through entiry for U.S. federal income tax purposes under Treasury Regulation section 301.7701-3. We may be prevented from doing so if Delta has previously taken a contrary position for tax purposes.

Please provide information regarding any tax fillings made by or on behalf of Delta or Grand with the United States Internal Revenue Service or any state tax authorities in the United States, including forms, tax returns or information returns.

We may have follow up questions upon receipt of your response.

Permanent Subcommittee on Investigations
EXHIBIT #190a

Eric Moser Andrew Walker

CONFIDENTIAL

Francois, Tom
From: Sullivan, William A Sent: Wednesday, November 03, 1999 2:10 PM To: Kulick, Adam; François, Tom Subject: FW: Andersen language
From: Jung-Suk Suh[SMTP:jsuh@ect.enron.com] Sent: Wednesday, November 03, 1999 2:00 PM To: Caplan, Rick; william, a sulfivan@ssmb.com Cc: Mark E Lindsey; Bob Butts; Doug McDowell Subject: Andersen language
Rick, Bill, Andersen is willing to accept the following rep from Delta. We need to get a response from Delta today.
Jung Forwarded by Jung-Suk Suh/HOU/ECT on 11/02/99 07:15 PM
Jung-Suk Suh 11/02/99 07:04 PM
To: Mark E Lindsey/GPGFIN/Enron@Enron, Bob Butts/GPGFIN/Enron@ENRON, Doug McDowell/HOU/ECT@ECT
cc: Subject: Andersen language 2
11/2/99
1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities;
2. The Company has assets other than those acquired through the Yosemite-related transactions, and the dept of the Company used to fund the Yosemite-related transactions is recourse to the Company; 7
There are unsecured assets of the Company available to the Lenders upon

Page 1

CITI-SPSI 0040634

CONFIDENTIAL

DELTA ENERGY CORPORATION P.O. Box 309 George Town, Grand Cayman Cayman Islands, B.W.I.

[Date]

Enron Corp. [address]

Re: Delta Energy Corporation (the "Company")

We confirm:

- There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities;
- 2. The Company has assets other than those acquired through transactions with Enron. All assets of the Company (other than those over which security has been granted) will be available to meet the claims of creditors of the Company (other than in cases where it has been agreed with the relevant creditor that a particular obligation owed by the Company is to be limited in amount and recourse to the sums derived from particular assets over which security has been granted).

Yours faithfully,

Delta Energy Corporation

JNR\JASM\197468\550509\BSRX01! 28 October, 1999

OCT 28 '99 18:52

3459496898

PAGE. 82

CONFIDENTIAL

DELTA ENERGY CORPORATION P.O. Box 309 George Town, Grand Cayman Cayman Islands, B.W.I.

November 18, 1999

Enron Corp. 1400 Smith Street Houston Texas 77002 U.S.A.

Dear Sire,

Re. Delta Energy Corporation (the "Company")

We confirm:

- There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undortaken business with a number of entities;
- The Company has assets other than those acquired through transactions with Yosemite Securities Trust I ("Yosemite"). The payment obligations of the Company under the promissory note dated November 18, 1999 in favour of Yosemite are full recourse obligations of the Company.
- The Company has unencumbered assets which are available for application towards obligations owed to its creditors (including Yosemite).

Yours truly,

J.B. Benbow Director

Permanent Subcommittee on Investigations
EXHIBIT #190b

From: Sent:

To: Subject:

Sherman, Cris Tuesday, June 19, 2001 12:31 PM Quaintance Jr., Alan RE: Sample Swap Co Letter

Alan, I think that the letter looks good, but a couple of comments. I remain a little troubled at the recent formation, but we obviously can't fix. Should we not mention the date? While I view the limited operating history as a bad fact, we may could avoid the issue altogether by not disclosing the formation date, it would have helped, I think, to see if we noted the formation dates in the Mahonia/Delta letters. If pressed, I would argue that we didn't draft he letter and can't control all of the facts which are being represented. We may also want to exclude the attachment of the Articles and embed the entities allowed activities which are relevant in the letter (egalan to avoid the date). I would broaden the statements made about Enron Corp. to include any Enron subsidiaries or affiliates. How large will the notional amount be? The limited period of existence could be overcome with some material activity. A statement to the effect that they expect that Swapco will continue to transact in the future would be a good fact. I would also ask that they note that the transactions as completed to date were not intercompany transactions, but transactions with true third parties.

From: Sent: To: Subject:

I am still trying to track down the original "Delta/ Mahonia" Letter. Everyone seems to have shredded their files, which is a little disturbing.

See attached. << File: Special Purpose doc>> Can you think of anything else that would need to be in a sample letter?

Thanks,

AQ

Permanent Subcommittee on Investigations EXHIBIT #190c

Permanent Subcommittee on Investigations
EXHIBIT #190d

Enron Corp.
1400 Smith Street
Houston, Texas 77002

To Whom It May Concern:

Re: Delta Energy Corporation (the "Company")

We confirm:

1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities.

2. The Company has assets other than those acquired through transactions with Enron Corp and its subsidiaries and its affiliates (collectively "Enron").

3. The Company has unencumbered assets, which are available for application towards obligations owed to its creditors.

Yours truly,

Signed by:_ Title:____ BECEIAED LIMETUR SE ETTIEN VON 345 949 540 F. TOUS 36 LOUD

NO. 4930 P. 2

June . 2001

Enron Corp. 1400 Smith Street Houston, Texas 77002

To Whom It May Concern:

Re: Delta Energy Corporation (the "Company")

We confirm:

- 1. There is no restriction in the corporate documentation of the Company limiting the number of entities with which the Company may conduct business. The Company has undertaken business with a number of entities.
- 2. The Company has assets other than those acquired through transactions with Enron Corp and its subsidiaries and its affiliates (collectively "Enron").

3: The Company has unencombered assets, which are available for application towards obligations owed to its creditors.

Yours truly,

Signed by:
Title: fortherd representative of the draw, supports some state.

CORPORATE SERVICES LTD.

T00/T00'4 TST0#

Permanent Subcommittee on Investigations
EXHIBIT #190e

TOR EZE ZIZ 80:81 TCCZ.32'NOE

CITI-SPSI 0103721

Unknown

From: Sent: To: Subject:

Swanson, Timothy [Fi] Thursday, June 28, 2001 10:13 AM Wagman, Steve [Fi] reps

lydia got on and stated that the reps are facts that we believe are true, and the rationale for the letter is to confirm that Delta is not a spv that needs to be consolidated on the b/s

fyi I have not sent any delta reps to enron.....

Permanent Subcommittee on Investigations EXHIBIT #190f

CITI-SPSI 0050735

Lee, Andrew P [FIN]

Captan, Rick [FI] Thursday, August 3,1, 2000 9:07 AM Lee, Andrew P [FIN] RE: A coupte of more questions From: Sent: To: Subject:

We still would have to consolidate as all of the assets of the trust are citibank assets. Delta is not controlled by Enrop, it is independently operated, set up with its own management. Oit had set it up several years ago. It was used for the same reason it was used in the first deal.

This will seem like a dumb question but was it not possible to have Enron (or some other party) buy 50% of the certificates as in the earlier Yosemile trades in order to avoid having to consolidate the trust? (I guess it doesn't have that much of an effect on the overall Citibank balance sheet but it does appear to affect the one for credit derivatives).

Also, is Delta Energy a Cayman-based SPV controlled by Enron? Why was it used in this deal? (We tried looking for information in Eric Pipa's old files but weren't acie to come up with much.)

Thanks, Andy

Permanent Subcommittee on Investigations EXHIBIT #190g

Lofaso, Betty Ann

From: To: Co: Subject:

Sullivan, William A isuh@enron.com Kulick, Adam FW. Prapaid Transaction

Sent on behalf of William Sullivan

Jung

We are looking at Delta Energy Corporation ("Delta") as the counterparty for the transaction under discussion:

- Delta is a Cayman corporation that is the purchaser on the existing pre-paid done in December 1998.
- It was capitalized by "Givens Half", a Cayman Trust Co.
- It has a board of 3 local directors none are Citibank employees.
- It is not, of course, consolidated onto the Bank's balance sheet.
- It is my belief that the remainder of the '98 prepaid is the only "business" currently in Delta,

Please call if you have any questions.

Regards,

Bill Sullivan Tei. (212) 816-8591 Fax (212) 816-7772 email: william.a.sullivan@ssmb.com

Permanent Subcommittee on Investigation EXHIBIT #190h

CITI-SPSI 0103953

Benefits to Enron Summary

Deal Name: Yosemite

Dollar Amount: \$33.8 million

Date: 12/99

Description of Transaction: At year-end 1999, Enron sold LJM2 the equity in

Yosemite structure. -- --

Enron Business Unit Benefited: Enron Corp.

Did the deal result in a direct or indirect benefit to Enron? Direct

Primary Benefit: Enron was able to obtain a true sale opinion because LJM is a true 3^{rd} party, preserving off-balance sheet treatment of the structure.

Funds Flow Direct: \$33.8

Funds Flow Indirect: \$766.2 million

Earnings Direct:

Earnings Indirect:

Fees Saved:

Other equity investors bidding on the transaction: none

Did the deal close with LJM? yes -

Other benefits to Enron:

- Speed of execution (approx. 2 days) LJM2 executed at year-end 1999 when Enron had unsuccessfully marketed the Yosemite equity.
- o Willing counterparty

Compiled by: Ace Roman

MK009330

Permanent Subcommittee on Investigation: EXHIBIT #191a Confidential Treatment Requested

SE RAPTOR L.P.

December 30, 1999

LJM2 Co-Investment, L.P. 1831 Wroxton Road Houston, Texas 77005

Attn.: Andrew S. Fastow

Re: Letter of Understanding

Gentlemen:

Pending the preparation and execution of definitive agreements and subject to the acquisition by LJM2 Co-Investment, L.P. or its wholly owned subsidiary (the "Seller") of \$33,750,000 of certificates (the "Yosemite Certificates") of beneficial ownership of Yosemite Securities Trust I, a Delaware business trust (the "Trust"), this letter will confirm our understanding regarding the proposed acquisition by SE Raptor L.P. (the "Purchaser") of the Yosemite Certificates in accordance with the terms and conditions set forth in this letter (the "Transaction").

- Term Sheet. The Transaction shall be made in accordance with this letter and the Term Sheet attached hereto as <u>Attachment A</u>, which is by this reference incorporated into and made a part of this letter.
- <u>Definitive Agreements</u>. The Purchaser and Seller shall incorporate the terms and conditions expressed in this letter in mutually acceptable definitive agreements (the "Definitive Agreements") to be finalized and executed no later than February 15, 2000 (the "Closing Date").
- 3. Confidentiality. The existence of this letter and its contents are intended to be confidential and are not to be discussed with or disclosed to any third party, except (i) with the express prior written consent of the other party to this letter, or (ii) as may be required or appropriate in response to any summons, subpoena or discovery order or to comply with any applicable law, order, regulation or ruling.
- Arbitration. All claims and matters in question arising out of this letter, whether sounding in contract, tort, or otherwise, shall be resolved by binding arbitration

LJM031533

Permanent Subcommittee on Investigations

EXHIBIT #191b

Page

pursuant to the Federal Arbitration Act. The arbitration shall be administered by the American Arbitration Association under the expedited Commercial Arbitration Rules. It is expressly agreed that the arbitrator shall have no authority to award punitive or exemplary damages, either in arbitration or in litigation.

If the terms and conditions of this letter are in accord with your understanding, please sign and return the enclosed counterpart of this letter.

	- 3								
		.Very t	ruly yours,						
		SE RA	ERAPTOR L.P.						
		Ву:	Blue Heron I L.L.C. its General Partner						
		By:	Whitewing Associates L.P., its Sole Member						
		Ву:	Whitewing Management L.L.C. its General Partner						
		Ву:	Egret I L.L.C. its Managing Member						
		By:	Name: Ben Glisan Title: Director						
	FIRMED Oth day of December, 1999.		1						
LJM2	CO-INVESTMENT, L.P.								
Ву:	LJM2 Capital Management, L.P., its General Partner								
Ву:	LJM2 Capital Management, L.L.C., its General Partner								
By:									
Σy.	Name: Andrew S. Fastow Title: Managing Member	-	Confidential Treatment Requested						
	•								

LJM031534

Attachment A

Summary of Terms and Conditions \$33,750,000 Certificates of Beneficial Ownership

Issuer:

Yosemite Securities Trust I (the "Issuer").

Seller:

LJM2 Co-Investment, L.P ("Seller")

Purchaser:

SE Raptor L.P. (the "Purchaser").

Certificates:

Certificates of the Issuer representing 45% of the beneficial ownership of the Issuer (the "Certificates").

Price:

\$33,750,000, plus accrued and unpaid Certificate Yield.

Closing Date:

Definitive Agreements to be finalized and executed on or before

February 15, 2000, with closing and funding to occur upon such

date.

Certificate

Yield:

11%, yield paid semi-annually on each May 15 and November 15

calculated on the basis of a 360-day year consisting of twelve 30-

day months.

Trust Agreement:

Certain rights and privileges of the Certificates are set forth in the

Trust Agreement of the Trust attached hereto as Exhibit A.

Assignment:

The Purchaser shall have the right to transfer, assign, exchange or sell the Certificates to one or more third parties at the Purchaser's discretion, subject to restrictions under applicable law, no tax event to the Issuer, minimum transfers of \$5 million, and

prohibitions on transfers to competitors of Enron.

Certificate Purchase

Agreement:

Mutually acceptable representations, warranties, and conditions shall be set forth in a certificate purchase agreement, which representations and warranties shall include, but not be limited to, representations and warranties relating to the Trust under existing transaction documentation, corporate organization and existence, valid authorization and the issuance of the Certificates, title, compliance with laws, governmental approvals and no material

adverse change.

Confidential Treatment Requested

LJM031535

Choice of Law:

The Definitive Agreements will be governed by the laws of the State of Texas.

Arbitration of Disputes:

Disputes arising under the Definitive Agreements shall be submitted to mandatory binding arbitration.

Closing:

Conditions precedent to closing shall include:

- A mutually acceptable Certificate Purchase Agreement shall be executed and delivered.
- All representations and warranties contained in the Certificate Purchase Agreement shall be true and correct as of the Closing Date.
- Other information and documents contemplated by Definitive Agreements as the Purchaser may reasonably request shall be provided.

Confidential Treatment Requested

LJM031536

Page 4

LJM APPROVAL SHEET

This Approval Sheet should be used to approve Enron's participation in any transactions involving LIM Cayman, L.P. ("LIM1") or 12 Co-Invextment, L.P. ("LIM2"). LIM1 and LIM2 will collectively be referred to as "LIM". This Approval Sheet is in addition not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Yosemite	¥				
Date Approval Sheet completed: February	y 8, 2000	*.	•		
Enron person completing this form: Cathe	erine Pernot		*		
Expected closing date: February 15, 2000	ı	***			
Business Unit: Enron Corp.					
Business Unit Originator: Bill Brown/ Do	oug McDowell				
This transaction relates to OLJM1 and/or	r Øljm2.		•		•
This transaction is ☑ a sale by Enron □a □other:	purchase by Enron Da	co-sale with Enron	□a co-purchase	with Enron ar	id/or
Person(s) negotiating for Enron: Bill Brow	wn / Doug McDowell /	Ben Glisan / Nicole	Alvino		
Person(s) negotiating for LJM: Michael K	opper				
Legal counsel for Enron: Gareth Banlman	in ,				
Legal counsel for LJM: Dave Lambert of	Kirkland & Ellis				*
DEAL DESCRIPTION		:			
LIM2 is purchasing Beneficial ownership in isting of AAA securities, U.S. obligation. The face amount of the Trust Invest have entered into the Citibank Swap, which under credit events, in exchange for actual in within one week of purchase.	ons, and payment oblig tments equals the amou a will provide for yield	ations supported, in int of Notes and Co payments on the Ce	whole or in part. tificates in the Tr rtificates and for	directly or in ust. The Trus certain settler	directly, by st and Citibank nent payments
ECONOMICS		:	 		
LJM2 is purchasing the beneficial ownershi	in at face value for \$33	750 000 to achieve	a viold of 11%		-
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LJM APPROVAL SHEET Page 2

ISSL	ES C	HECKLIST		. · · · · · · · · · · · · · · · · · · ·			
		ale Options	- :				
	a.		on is a sale of an asset by Enron, v	uhiah af sha falt.			
		□Condor □ ☑Third Party		Margaux	□EnSerCo	re considered ar Rawhide	nd rejected: UChewco
		Please explain:	Enron entered into a Letter of U sell the Certificates to Condor.	nderstanding wi	th LJM2 and LJN	12 subsequently	entered into a similar
	ь.		tion be the most beneficial alterna				
	c.	Were any other	bids/offers received in connection	mive to Enron?			
2.		or Obligations	ores oriers received in connection	with this transa	ction? LiYes	⊠No. Pica:	se explain:
	a.	Does this transac	ction involve a Qualified Investment in how this issue was resolved:	ent (as defined in	n the JEDI II parti	nership agreeme	nt)? □Yes ☑No. If
	ь.		tion required to be offered to any	other Enron af	filiate or other pa	rty pursuant to	a contractual or other
	Ter	ms of Transaction					
	a.	What are the ben	efits (financial and otherwise) to l	Enron in this tra	nsaction? 🎞 Cash	flow FIE	nings
	Ø	ther: Sale of asset	to third party (full risk transfer);	non-consolidatio	on of Yosemite D	ebt on Enron's	nings
	ь.	Was this transact	ion done strictly on an arm's-leng	th basis? ☑Yes	□No. If no nie:	es explain	Mance sheet
	c.	Was Enron advis	ed by any third party that this tran	saction was not	fair, from a finan	cial perspective.	to Enron?
٠.	d.	ans marker stand	enses and out-of-pocket costs (incl and or has the economic impact ons 1.b. and 3.b. above?	uding legal fees f paying any ex IYes DNo.) being paid by L penses and out-o	IM? □Yes f-pocket costs b	ENo. If no, is een considered when
	Con	npliance					
	э.	Will this transacti	on require disclosure as a Certain	Transaction in I	Foron's provides	tement'i ElV	=>1
	b	Will this transact □Yes □N	ion result in any compensation (as defined by t	he proxy rules) i	peing paid to a	iy Enron employee?
٠.	c.	Have all Enron e Chairman in acco	mployees' involvement in this tr rdance with Enron's Conduct of B	ansaction on be	ehalf of LJM bee Policy? ⊠Yes	n waived by E	nron's Office of the
	d.	Was this transaction	on reviewed and approved by Enr	on's Chief Acou	unting Officer?	EN EN	
	e.	Was this transaction	on reviewed and approved by Enr	on's Chief Biek	Officer?	Tes UNo.	
	f.	Has the Audit Co twelve months?	mmittee of the Enron Corp. Boa "Yes Mo. Have all n taken into account in this transacti	rd of Directors	reviewed all Enro	nd M manage	tions within the past ting to Enron/LJM
PPR	OVA	LS	Name		Signature		Date
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LJM	APPROVAL SHEET
Page	7

Global Finance Legal Scott Seft
\C Rick Buy
Accounting Rick Caus

5 60 th 50 2/10/00 2/1

AF100179

EC2 28949

INTEROFFICE MEMORANDUM

Rick Buy To:

From: Dave Gorte 2007 Date: February 23, 2000

Re: LJM2 Investment in Certificates of Beneficial Interest in Yosemite Securities Trust I

I have reviewed this proposed LJM2 investment. The 11% yield at which LJM proposes to purchase \$33.75 million of the \$37.5 million of Certificates of Beneficial Interest (the "Certificates") in Yosemite Securities Trust I is identical to the stated yield of these Certificates. In addition, this 11% yield is identical to the yield on the remaining \$37.5 million of these Certificates purchased by Citibank at the closing of this

As such, I am of the opinion that the pricing at which Enron is selling these Certificates to LJM reflects the market yield for these certificates. (LJM2 intends to resell these certificates to Condor within one week of its purchase of these certificates).

If you have any questions or comments, please let me know.

Permanent Subcommittee on Investigations EXHIBIT #191d

E 36220



Enron Global Finance

02/24/2000 09:38

To:

Catherine_Pernot@enron.net @ ENRON Rachel A Davis/HOU/ECT@ECT, Nicole Alvino/HOU/ECT@ECT, Anne Yaeger/HOU/ECT@ECT

Catherine,

I calculated the same number.

This is how I understand the funds to be flowing:

34, 781, 255)

Whitewing (Condor) will wire LJM2 the \$34,801,875 on Monday, February 28, 2000. (3-day funds loan)

34, 781, 250

LJM2 will wire Yosemite (Enron Corp.) the \$34,801,875 on Monday, February 28,2000. (purchase)

Whitewing will then purchase Yosemite from LJM2. (No actual funds flow)

Let me know if there are any questions. Thanks, Monty 3-9627

Catherine_Pernot@enron.net on 02/25/2000 08:56:49 AM



Catherine_Pernot@enron.net on 02/25/2000 08:56:49 AM

To: mmcmahe@enron.com

I calculated the accrued interest for the Yosemite Certificates as follows:

Days from11/18/99 closing to 2/28/00 closing on a 30/360 day basis:

.102 days

8.00

Yield:

11%

\$33,750,000

= Accrued Interest of

Confidential Treatment Requested

Total 34, 781,260

EC2 000017435

Permanent Subcommittee on Investigation EXHIBIT #191e

YOSEMITE I PAYMENT ALLOCATION

TOTAL PAYMENT	2/ 70/ 0/0 02
S.E. ACQUISITION, LP (99.99%)	34,781,250.00
BLUE HERON I, LLC (.01%)	34,777,771.88 3,478.1 £ ,2
S.E. ACQUISITION, LP SHARE OF ASSET COST	34,777,771.88
WHITEWING ASSOC LP (99.99%)	34,774,294,10
BLUE HERON I, LLC (.01%)	

Confidential Treatment Requested

EC2 000017436

To: Paul Garcia/HOU/ECT@ECT, Montly L McMahen/HOU/ECT@ECT, Nicole Alvino/HOU/ECT@ECT Ryan H Surek/Corp/Enron@Enron
Subject: Yosen/ite Certificates

Here is the structure and funding mechanics for this Thursday:

LJM II purchases Enron's 45% interest in Yosemite I certificates with "3- day" funds. SE Raptor, LP (Condor) then purchases the certificates with money they have available today. In essence, LJMII will not actually be "funding" because SE Raptor will have already wired money into LJMII's acct before LJMII's 3 -day funds come through. We need to make sure that all the funds go through each acct. on the same day.

Paúl and Monty, would you mind giving me the acct. *s for LJMil and Enron so that we can put them into the docs as well as SE Raptor LP's acct so that I'll have that on record for the yield payments?

The amount of the transaction will be \$34,605,938.50, which is \$33,750,000 certificate face amt. and \$855,938.50 of accrued interest.

Thanks, Catherine X57654

E 98958

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Confidential Treatment Requested

Permanent Subcommittee on Investigations
EXHIBIT #191g

EC2 000017434

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P.O. Box 1188 Houston, TX 77251-1188 (713) 853-6161

March 9, 2000

LJM2 Co-Investment, L.P. 1831 Wroxton Road Houston, Texas 77005

Attn: Andrew S. Fastow

__Gentlemen:

LJM2 Co-Investment, L.P. ("LJM2") and Enron Corp. ("Enron") entered into a Certificate Purchase Agreement, dated effective as of December 29, 1999 (the "Agreement").

In consideration of LJM2's participation as the purchaser under the Agreement and for certain services rendered in connection therewith, Enron agrees to pay LJM2 \$100,000. Payment of such fee will be made to LJM2 upon Enron's receipt of notice of the account to which such payment shall be made.

In addition to the aforementioned fee, Enron agrees to reimburse LJM2 for expenses in the amount of \$7,061.48.

ENRON CORP.

William W. Brown Deputy Treasurer

 $\sqrt{2}$

Acknowledged this <u>9</u>th day of March, 2000

LJM2 CO-INVESTMENT, L.P.

LJM2 Capital Management, L.P., Its General Partner Ву:

LJM2 Capital Management, LLC, By:

Its General Partner

Ву:

Andrew S. Fastow General Partner

Endless possibilities.™

INT11 00586

Permanent Subcommittee on Investigations EXHIBIT #191h

DT 002040

April 7, 2000

Subject: Monthly Newsletter

To the Limited Partner of LJM2 Co-Investment, L.P.:

This correspondence from the General Partner summarizes the activities of LJM2 Co-Investment, L.P. ("LJM2") during the month of March, 2000.

Partnership Closings

On April 5th, the final closing of LJM2 took place with the addition of 22 ——new-investors and \$172—million—of additional capital commitments. These new investors consisted of banks, pension funds, a venture capital fund and individuals. This will be the final closing for LJM2, bringing the total capital commitments to the fund to \$490 million——

Organizational Activities

Ms. Joyce Tang joined LJM2 as a Vice President of Accounting, responsible for cash management, financial reporting and tax reporting for LJM2. Ms. Tang comes from American General Life Insurance Company where she was responsible for managing the accounting of 20 active variable life and variable amusity products totaling \$1 billion in assets. Prior to American General, Ms. Tang worked for Hambro America in New York, managing the tax and accounting reporting for seven venture capital funds. Ms. Tang has a B.B.A. in Public Accounting from Pace University.

The first year—end audit of LJM2 financial statements has been completed by KPMG. The financials will be distributed to each Limited Partner on April 10th.—Each LP should be receiving their K-1, statement of taxable income, by April 14, 2000.—Any questions or inquiries on the financials or the K-1's should be directed to Anne Yaeger, 713-853-9205.

Advisory Committee

The Advisory Committee has been named and the members are

Liquidated Investments

Yosemite - On February 27, 2000, LJM2 purchased the certificates in Yosemite Trust for \$33.75 Million. Yosemite Trust is a Delaware Business Trust that owns investments consisting of AAA securities, U.S. obligations and payment obligations supported, in whole, or in part, directly or indirectly by Euron. Due to the low return on this investment, LJM2 entered into a back to back agreement with another investor and immediately sold the certificates after purchase, with no newnal-cash outflow required by LJM2. (Kathy we actually did pay for the investment, we just required that we received the money from our purchaser before we had to pay, in other words using their funds.) LJM2 earned a \$100,000 fee for this transaction (Kathy, technically, no expenses were paid by Yosemite Trust. What did happen and what was documented in the fee letter is that \$100,000 plus an amount of \$7,000 (approx) was paid by Euron to LJM2. The \$7,000 was to cover the negative arbitrage LJM2 incurred as they had to draw down on the Lhase revolver to become a OUIB. But the fee letter is silent to the use of the \$7,000 but that is where the amount came from) perhaps none of that matters for this letter, just wanted to let you know what transpired, and all taxes and legal fees were paid by Yosemite Trust. The unlevered return on this investment was 134%.

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

DP 035633

Permanent Subcommittee on Investigations
EXHIBIT #191i

Pluto - At year end 1999, LJM2 purchased 90% of the equity and 100% of the debt in MEGS, LLC ("MEGS") for \$26.3 Million_ MEGS is a special purpose entity that purchased an offshore gas gathering system in the Gulf of Mexico from Mariner Energy and Burlington Resources. Prior to the March 6, principal was received of \$385,799 and \$480,505 in interest. LJM2 sold this investment on March 6, 2000 for \$26.0 Million_ All legal and tax fees were paid by Enron North America. The unlevered return RR of this investment is 10.3% and the levered return is 22.47%.

Nowa Sarzyna - On December 22, 1999, LJM2 purchased a 75% indirect equity interest in a gas fired power plant in Poland for \$30 Million. On March 31, 2000, LJM2 sold this equity interest to two parties for \$31.9 Million. LJM2 received a \$750,000 upfront fee on this transaction and all legal and tax fees were paid by Euron Europe. The unlevered return on this investment is 37.1% and the levered return is 307%.

New Investments

Rawhide - On March 28.—..., 2000, LJM2 purchased 55.6% of the equity in Rawhide Investors, LLC ("Rawhide") for \$12.5 Million. Rawhide is a -monetization of Euron's merchant portfolio of selected Enron North America and Enron International assets, which closed in December 1998. The Rawhide structure is currently being extended and LJM2 purchased the existing equity from a third party. The ununievered return on this investment is expected to be 14-16%. The levered return on this investment is expected to be 17-20%.

Potential Investments

Raptor, Osprey and Margaux – These three investments, which were described in the presentation sent to investors on March 17, 2000, are still under review and are expected to close in the month of April, 2000. Raptor will provide the first co-investment opportunity for LPs.

Indebtedness

Available amounts under the revolver were used to make the Rawhide investment of \$12.5 Million, LJM2 currently has three credit facilities in place. The \$65 Million revolving facility with Chase Manhattan Bank has commitments remaining of \$36,500,000. We are beginning the process of negotiating an increase in the amount of the revolver in light of the substantial increase in capital commitments since the Revolving Credit Agreement was signed with Chase in December of 1999. Liquidation proceeds from the sale of both Pluto and Nova Sarzyna were utilized to prepay the Screaming Eagle Acquisitions loan and the LJM Cayman, L.P. loan. The current balance on the Screaming Eagle Acquisitions loan is \$15.2 Million and the LJM Cayman, L.P. loan has been repaid in full, LJM2's indebtedness is \$43.7 Million, leaving availability of \$ Million and outstandings of \$ Million. We are beginning the process of negotiating an increase in the amount of the revolver in light of the substantial herease in capital commitments since the Revolving Credit Agreement was signed with Chase in December of 1999.

Other

Thank you for your cooperation during all of the closings and fundings of the LIM2 partnership. Now that the final closing has taken place, and the first year-end financial audit has been completed, we can turn our full attention to investment activities. We look forward to working with all of you and welcome any of your comments or suggestions to improve communication.

Sincerely,

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

DP 035634

LJM Deal Pipeline Status Report

Name	Amount	Description	Status/Timing
1. Eco Electrica		-	
2. Yosemite		Pass through of equity investment to Condor. No investment funds will be used	QUIB issues have been resolved. Send out letter to Advisory Committee for approval. Expect to close on Monday, Feb. 28th
3. Euro Yosemite			
4. Screaming Eagle			
5. Rawhide			,
6. Elektro		Purchase of a portion of Elektro equity as bridge to a strategic investor	Before the end of March
7. Bermuda Ins.	-		
8. Osprey			
9. Margeaux			
10. Swap Sub	\$218MM	Replace Enron shares as collateral for derivatives with income producing securities	Pursue forward equity sale with fin. InstWorking with Corp. to evaluate – GNW proposal, too complicated and not as attractive for Emon
11.Raptor			-
12. Ins. Co/Raptor			
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CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

DP 035656

Yosemite Equity Sale Project "YES"



November 10, 2000

Ca0001996

Permanent Subcommittee on Investigations
EXHIBIT #191j

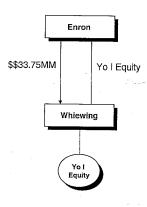
Project YES

Need

- Condor and Enron seek to sell 45% of their 50% equity interests in Yosemite Securities
 Trust I ("Yo I") and Yosemite Securities Company Ltd. ("Yo II") prior to FYE2000. A
 divestiture of these interests is twofold (i) the ownership of Yosemite II equity creates
 undesirable financial disclosure in Enron's Unconsolidated Equity Affiliates footnote; and
 (ii) Condor has a need to enhance its liquidity.
- Although AIG has an appetite to purchase the Yo I and Yo II assets, they are not willing to accept the risk of total loss on its commitment in the event a failure to pay on the underlying Yo I and Yo II investments has no linkage to the more broadly defined Enron [Public] Failure to Pay in the Yo I and Yo II Collateral Security Agreements . Specifically, AIG is currently not able to mitigate its risk with credit default swaps that match its investment. Therefore, a sale in the purest sense is not a viable option.

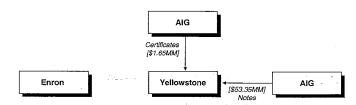
Solution:

- Create a new, wholly-owned AIG SPV capitalized with Notes and Certificates, formed for the sole purpose of buying the YO I and Yo II equity off of Enron's balance sheet.
- Enron provides a Total Return Swap on the Notes to create a direct Enron obligation on 97% of the transaction.



Step 1 - Formation of Yellowstone

• Enron purchases, at par (or \$33.75 million), the Yosemite Securities Trust I ("Yo I") equity from Whitewing.

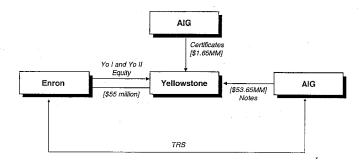


Step 2- Capitalization of Yellowstone

- Form a new 97/3 SPV ("Yellowstone").
- Yellowstone raises [\$55 million] by issuing [\$1.65 million] in Certificates and [\$53.35 million] in Notes to AIG.

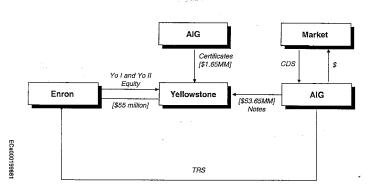
Step 3 - Sale of Yo I and Yo II equity

- Yellowstone purchases 45/50ths of Enron's Yo I and Yo II equity interests for [\$55 million].
 These assets would be on Enron's balance sheet at [\$50 million].
- Enron enters into a Total Return Swap ("TRS") with AIG. The TRS will cover the difference between the notional amount and actual principal payments at maturity.
- The premium represented in Yellowstone's purchase price is acceptable given the credit enhancement provided via the TRS, and results in a [\$2 million gain] to Enron in [4Q2000].



Step 4 - Credit Default Swaps

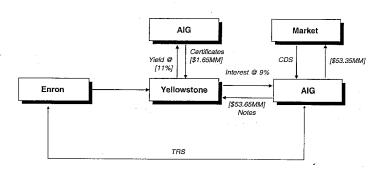
 AIG purchases Credit Default Swaps on Enron in the open market to hedge any payment default risk associated with the TRS.



Structural Overview

Step 5 - Payment of Interest and Yield.

- Yellowstone receives 11% on the Yo I certificates and 12% on the Yo I! certificates for a blended rate of 11.3% on [\$50 million].
- Yellowstone pays (i) interest payments equivalent to a debt return of [9.25%] on [\$53.35 million] in Notes; and (ii) yield payments of 12.25% on the [\$1.65 million] in Certificates for a blended rate of 9.3% on [\$55 million].



Structural Overview

Step 6 - Maturity

- Yellowstone redeems the Certificates and Notes to AIG with the proceeds received from Yosemite and interest income which has accrued at the SPV level sufficient to cover the remaining [\$5 million].
- Enron pays AIG any shortfall between the notional amount of the Notes and the actual principal payments on the Notes.

Assumptions		
Yosemite I Equity	\$	33.75
Return on Yosemite I Equity		11.000%
Yosemite II Equity	\$	16.52
Return on Yosemite II Equity		12.000%
SPV Capital	s	52.80
SPV Notes	\$	51.22
SPV Certificates	\$	1.58
Day Count Conversion		360
ECF		7.250%
Current Return to of Blended Yosemite Equity		11.329%
Cost of Yeilowstone Notes		
as a spread to LIBOR		2.000%
Cost of Yellowstone Notes		9.250%
Current Return of Yellowstone Certificates		
as a spread to LIBOR		5.000%
Current Return of Yellowstone Certificates		12.250%

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	\$ \$ 1.02 \$ \$ \$	\$ 6.17 \$ 5.13 \$ 0.21 1.02 \$ 0.02 \$ 0.81 \$ 0.81	\$ 6.17 \$ \$ 5.13 \$ \$ 0.21 \$ \$ 0.62 \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ 0.61 \$ \$ \$ 0.61 \$ \$	\$ 6.17 \$ 5.69 \$ 5.13 \$ 4.74 \$ 0.21 \$ 0.19 1.02 \$ 0.02 \$ 0.02 \$ 0.81 \$ 0.74 \$ 0.81 \$ 1.55	\$ 0.00 360 1 2 \$ 6.17 \$ 5.69 \$ \$ 5.13 \$ 4.74 \$ \$ 0.21 \$ 0.19 \$ 1.02 \$ 0.02 \$ 0.02 \$ \$ 0.81 \$ 0.74 \$ \$ 0.81 \$ 1.55 \$	390 360 360 1 2 3 \$ 6.17 \$ 5.69 \$ 5.69 \$ 5.13 \$ 4.74 \$ 4.74 \$ 0.21 \$ 0.19 \$ 0.19 \$ 0.62 \$ 0.02 \$ 0.02 \$ 0.81 \$ 0.74 \$ 0.74 \$ 0.81 \$ 1.55 \$ 2.29	\$90 \$60 \$50 \$50 \$1 \$2 \$3 \$3 \$4.74 \$4.74 \$5 \$0.21 \$5 \$0.22 \$5 \$6.95 \$1.02 \$5 \$0.81 \$5	390 350

 Margin
 2.00%
 2.00%
 2.00%
 2.00%

 Less Cost of CDS
 1.08%
 1.08%
 1.08%
 1.08%

 Net Margin to AlG
 0.9%
 0.9%
 0.9%
 0.9%

 \$ 0.47
 0.47
 0.47
 0.47
 0.47

 PV
 \$ 0.44
 \$ 0.41
 \$ 0.38
 \$ 0.35
 \$ 0.35

Structural Benefits

Enron

- At Maturity, Enron pays [\$50 million] to Yellowstone.
- Yellowstone redeems the Certificates and Notes to AIG with the proceeds received from Enron and interest income which has accrued at the SPV level sufficient to cover the remaining [\$5 million].

AIG

EC-000100

Whitewing Investment Proposal

Yosemite Securities Company Ltd.

December 12, 2000

ECa000192304

Permanent Subcommittee on Investigations
EXHIBIT #191k

Executive Summary

- Whitewing has the opportunity to purchase an £10,012,500 ([US\$14.5 million]) equity interest in Yosemite Securities Company Ltd. ("Yosemite II") from Bank Boston. Yosemite II is capitalized with £22.25 million in Certificates and £200 million in secured Notes.
- The Certificates carry a 12% yield and have a final maturity date of February 1, 2007. Interest is paid annually on February 1.
- Whitewing's purchase will act as a temporary bridge to a 2001 sale to a third party investor. Equity consent is required because of the \$40 million Obligor cap. This metric is exceeded as a result of Whitewing's current \$33,750,000 equity interest in Yosemite Securities Trust I ("Yosemite I").
- Both Yosemite I and Yosemite II were structured to provide a credit quality which mirrors Enron senior unsecured obligations. As a result, both issues are rated BBB+/Baa1, consistent with Enron Corp.'s senior unsecured debt rating.

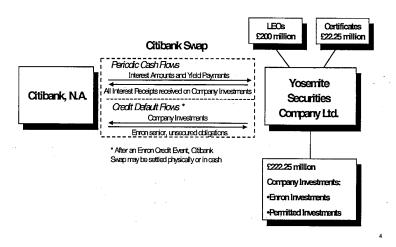
Executive Summary (cont.)

Proceeds from both the Notes and Certificates of Yosemite I and Yosemite II were applied towards the acquisition of Company Investments. Company Investments are defined as (i) (a) securities denominated in pounds sterling having either (1) a short term debt rating of "P-1" by Moody's and "A-1+" by S&P of issuers whose long-term unsecured debt rating is "Aa3" or better by Moody's and "AA-" or better by S&P and maturing 45 days or less from the date of purchase or (2) a long term debt rating of "Aaa" by Moody's and "AAA" by S&P or (b) debt securities of the United Kingdom known as Gilts and (ii) payment obligations denominated in pounds sterling supported, in whole or in part, directly or indirectly, by Enron.

Executive Summary (cont.)

- Yosemite I and Yosemite II have both entered into Citibank Swaps for each Company Investment that, in the absence of a credit event, provide that:
 - Citibank will receive periodic distributions on Company Investments
 - Citibank will make interest payments on the Yosemite II Notes and yield payments on the Certificates
 - Principal payments on Company Investments will be the investors' primary source of principal repayment
- The Citibank Swap ensures credit risk which is essentially the same as Enron senior unsecured obligations.

Yosemite Structure



Transaction Rationale

■ CREDIT: Risk profile mirrors senior unsecured obligations of Enron

Corp., as supported by the Yosemite II credit rating of

BBB+/Baa1.

■ HOLD: This is a bridge financing to a longer-term solution which

will be implemented in 2001.

■RETURN: 12% per annum return is above market for Enron Corp.

paper.

DEWEY BALLANTINE LLP

MEMORANDUM

TO:

The Parties On The Attached

Distribution List

FROM:

Robert H. Blackman, Legal Asst.

DATE:

December 13, 2000

RE:

Osprey Consent- Yosemite

Attached is a Consent in connection with the Whitewing Investment Proposal regarding the acquisition of a Trust Certificate in Yosemite Securities Ltd. We understand Enron previously discussed this with you. If you are in agreement, please fax one executed copy to me at (212) 259 6333, and forward ten (10) executed copies of the relevant signature pages to me at Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, NY 10019.

If you have any questions or concerns, please contact Thomas Mazza at (212) 259 6700 or me at (212) 259-7236 at your earliest convenience.

Best regards.

Attachments

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

Permanent Subcommittee on Investigation:
EXHIBIT #1911

Distribution List

Principal Life Insurance Company Ken Hovey JoEllen Watts

Stonehurst Capital Inc.

Doug Stark

Nixon Peabody LLP Scott Cristman

John Hancock Life Insurance Company Dan Revers Amy Weed

Kirkland & Ellis

Martha Stuart

Chewco Investments L.P. Michael Kopper

LJM Investments Kathy Lynn Chris Lochr

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

CONSENT

This written consent is dated as of December _____, 2000 and is being given pursuant to Section 6.06 (b) of that certain Amended and Restated Limited Liability Company Agreement of Whitewing Management LLC (the "Agreement") dated as of the Closing Date between Egret I LLC, a Delaware limited liability company ("Egret") and Osprey Trust, a Delaware business trust ("Osprey"). Terms capitalized for other than grammatical purposes in this consent but not defined herein have the meanings set forth in the Agreement.

Egret has advised Osprey that Egret expects a wholly-owned direct or indirect subsidiary of Whitewing Associates L.P. ("Whitewing LP") to acquire a Trust Certificate in Yosemite Securities Company Ltd., as more fully described in the presentation previously submitted to the Certificateholders. The aggregate purchase price of such Trust Certificate shall not exceed \$15 million.

Information required pursuant to Section 6.01 (c) and Schedule 6.01 (c) of the Agreement regarding the Trust Certificate has been delivered previously by Egret to each of the Certificateholders of Osprey. In addition, each Certificateholder has had the opportunity to discuss the Trust Certificate with representatives of Enron.

Acquisition of such Trust Certificate by a wholly-owned direct or indirect subsidiary of Whitewing LP requires the consent of Osprey pursuant to Section 6.06 (c) (i) of the Agreement. The undersigned, constituting at least an Osprey Majority of the Osprey Certificates, hereby consents in writing pursuant to Section 6.06 (b) of the Agreement to the transaction described in the second paragraph hereof.

This Agreement may be executed in any number of counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

	CIPAL LIFE INSURANCE COMPANY, on for one or more separate accounts Principal Capital Management, LLC, a Delaware limited liability company, its authorized signatory
	By:
	its.
	P
	By:
attorn	CIPAL LIFE INSURANCE COMPANY, as ey-in-fact for Osprey Associates LLC, as r of Osprey Certificate No. 1
Ву:	Principal Capital Management, LLC a Delaware limited liability company, its authorized signatory
	By:
	By:Its:

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

WES By:	TBORO PROPERTIES L.L.C. Stonehurst Capital Inc., its Manager
	Ву:
	Name:
	Title:
Ospro By:	REY ASSOCIATES L.L.C., as holder of ey Certificate No. 2 Stonehurst Capital L.L.C., its Manager Stonehurst Capital Inc., its Manager
	By: Name: Title:

ONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

Ву:	
Name:	-
Title:	
JOHN HANCOCK VARIABLE LIFE	
INSURANCE COMPANY	
By:	
Name:	
Title:	
INVESTORS PARTNER LIFE INSURANCE	
COMPANY	
Ву:	
Name:	
Title:	

JOHN HANCOCK LIFE INSURANCE COMPANY

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

CHEWCO INVESTMENTS, L.P.

By: SONR #1, L.P., its General Partner

By: SONR #1, L.L.C., its General Partner

By: Name: Title:

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

LJM: By:	2-OSPREY, LLC LJM2CO-INVESTMENT, L.P., its
Ву:	managing member LJM2 CAPITAL MANAGEMENT, L.P., its general partner
Ву:	LJM2 CAPITAL MANAGEMENT, LLC, its general partner
	Ву:
	Name: Title:
OSPI	REY ASSOCIATES II LLC
By:	OA Investments LLC, its Manager
By:	
By:	LJM2 Co-Investment, L.P., its sole Member and Managing Member
By:	LJM2 Capital Management, L.P., its General Partner
Ву:	LJM2 Capital Management, LLC, its General Partner
	Ву:
	Name:
	Title:

From:

AWong@milbank.com@ENRON [IMCEANOTES-AWong+40milbank+2Ecom+40ENRON@ENRON.com]
Thursday, February 22, 2001 5:37 PM
amanda.angellni@ssmb.com; McDowell, Doug; gareth.bahlman@milbank.com
RE: Yosemite Securities Company Ltd (the "Company")

Sent:

To: Subject:

That is indeed the correct form. If anybody needs to reach me at home my number is 201-626-5199. Here is the information needed from Enron and Raptor as asked for by Jersey:

Enron Corp

Enron Corp.

This company, as a public listed company is required to to provide us with a Client (Corporate) Questionnaire and all of the documentation requested therein. We also require verification of 2 of the directors of Enron Corp. in addition we require a letter from the management of Enron Corp., verifying the capacity in which Jill Erwin is acting and confirmation that she is authorised to act in this capacity on behalf of Enron Corp. SE Raptor L.P.

Further clarification is required as to the structure of SE Raptor as it may Furtner cannication is required as to the structure of SE Rapfor as it me be helpful from a compiliance point of view to establish more clearly its connection with Enron Corp. We also require details of the beneficial ownership of SE Rapfor. A Client (Corporate) Questionnaire and all documentation requested therein is also required and potentially Client (Personal) Questionnaires in respect of the beneficial owners, if the company has a private status.
Sincerely,

Albert Wong

Albert Wong Associate Global Corporate Finance
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza New York, NY 10005 Telephone: 212-530-5392

Facsimile: 212-822-5392 Internet: awong@milbank.com

-Original Message-

From: Angelini, Amanda [FI] [SMTP:amanda.angelini@ssmb.com]

Sent: Thursday, February 22, 2001 5:14 PM

To: 'doug.mcdowell@enron.com'; 'gareth.bahlman@milbank.com'

Cc: 'awong@milbank.com'

Subject: FW: Yosemite Securities Company Ltd (the "Company")

Doug

As discussed here is the questionnaire.

If this is the incorrect form please forward the correct form to Doug and Gareth as it needs to be filled in by Osprey.

Permanent Subcommittee on Investigations

EXHIBIT #191m

ECp000096940

Thanks
AmandaOriginal Message
From: AWong@milbank.com [mailto:AWong@milbank.com AWong@milbank.com] Sent: Thursday, February 22, 2001 1:12 PM To: Angelini, Amanda [Fi] Subject: FW: Yosemite Securities Company Ltd (the "Company")
Amanda:
Please advise as to who at Fleet National Bank should receive the questionnaire to fill out regarding the bank as certificateholder in Yosemite II. Thanks.
Sincerely, Albert Wong
Albert Wong
Associate
Global Corporate Finance
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005
Telephone: 212-530-5392
Facsimile: 212-822-5392
Internet: awong@milbank.com
Dear Albert,
I refer to the conference call of this afternoon between ourselves and Steve
Burnett in relation to the distributions to the certificateholders (the "Distributions")

ECp000096941

As previously advised, regardless of whether an account is opened for the Distributions or whether the Distributions are made from the Euroclear account, where the funds are at present, there is still a requirement for the directors of the Company to authorise the transactions, which the Directors are unable to do for compliance reasons, until such time as all of

our compliance requirements have been met.

As advised in our previous correspondence with the various parties, the compliance documentation that is required is as follows:-

Fleet National Bank

A Client (Corporate) Questionnaire requires to be completed. If however, Fleet National Bank is regulated by relevant Money Laundering legislation in

the US and can provide us with the name of the relevant legislation under which they are regulated, we will not require the documentation requested within the Client (Corporate) questionnaire.

Enron Corp

This company, as a public listed company is required to to provide us with a

Client (Corporate) Questionnaire and all of the documentation requested therein. We also require verification of 2 of the directors of Enron Corp. In addition we require a letter from the management of Enron Corp. verifying the capacity in which Jill Erwin is acting and confirmation that she is authorised to act in this capacity on behalf of Enron Corp.

SE Raptor L.P.

Further clarification is required as to the structure of SE Raptor as it may

be helpful from a compliance point of view to establish more clearly its connection with Enron Corp. We also require details of the beneficial ownership of SE Raptor. A Client (Corporate) Questionnaire and all documentation requested therein is also required and potentially Client (Personal) Questionnaires in respect of the beneficial owners, if the company has a private status.

I attach a further copy of our Client (Corporate) Questionnaire for your information.

<<Cli>(Corporate) Questionnaire.doc>>

I look forward to hearing from you with regards to the way forward.

Kind regards.

Lynda Shepherd

<<Cli>(Corporate) Questionnaire.doc>>

This e-mail message may contain legally privileged and/or confidential information. If you are not the intended recipient(s), or the employee

or agent responsible for delivery of this message to the intended recipient(s), you are hereby notified that any dissemination, distribution or copying of this e-mail message is strictly prohibited. If you have received this message in error, please immediately notify the sender and delete this e-mail message from your computer.

<< File: Client (Corporate) Questionnaire.doc >>

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From: Sent: To: Subject:

Walden, Clint Thursday, November 01, 2001 5:48 PM Cilla, Mary Docs

Permanent Subcommittee on Investigations
EXHIBIT #191n

ECp000091824

Yosemite I Transaction

Enron purchased certificates of Yosemite Securities Trust I (Trust I) equaling an aggregate principal amount of \$37,500,000. This represented an approximate 50% equity interest in the Trust. A Bank of Boston affiliate purchased the remaining 50% interest in the Trust.

Effective as of December 29, 1999 Enron sold \$33,750,000 of its certificates in Trust I to LJM in order to reduce Enron's ownership interest in Trust I to approximately 5%. LJM purchased this equity from Enron at par, and from the date of purchase began receiving the same 11% return as the other equity holders.

Effective as of December 30, 1999 LJM sold \$33,750,000 of its certificates in Trust I to SE Raptor LP (subsidiary of Whitewing) in order to reduce LJM's ownership interest in Trust I to zero. SE Raptor LP purchased this equity from LJM at par, and from the date of purchase began receiving the same 11% return as all other equity holders.

For tax purposes the total equity in Trust I was equal to 10%. This is above the required 3% level to achieve deconsolidation in a 97%/3% SPV structure for GAAP purposes.

If Enron had owned 50% of the equity in Trust I over year-end, the Yosemite transaction would have had to be disclosed in the unconsolidated affiliates footnote. The Yosemite transaction was structured to allow Citibank to syndicate Enron exposure to the capital markets (exposure which is reflected on our balance sheet as a liability). Including Trust I in the footnote would result in analysts double counting liabilities through the typical add back of a percentage of the debt of unconsolidated subsidiaries.

Transaction Structure Description

Trust I was created by Citibank. Approximately \$825 million of proceeds were raised by selling equity and debt interests in Trust I. The proceeds raised by Trust I were invested in permitted investments that included AAA rated securities, time deposits, promissory notes or commercial paper of US money center banks.

Related to this structure was a credit default swap, which was entered into between Trust I and Citibank. The terms of the swap were such that absent an Enron Credit Event, Citibank would pay to Trust I an amount equal to the interest and yield on the debt and equity of Trust I and Trust I would pay to Citibank the actual amount earned on the permitted investments. Upon an Enron Credit Event, Citibank could settle the swap physically (by delivering Trust I certain Enron Obligations) or in cash.

Credit and Subordination Agreement between SE Acquisition and LJM2

- The proceeds received under the agreement by LJM2 were used for general partnership purposes.
- On December 20, 1999, SE Acquisition LP (Lender) and LJM2 Co-investment LP (Borrower) entered into a Credit and Subordination Agreement in which SE Acquisition would lend LJM2 up to \$38.5 million.
- · Amounts borrowed and then repaid were not allowed to be re-borrowed.
- On the closing date, LJM2 drew the entire \$38.5 Million.
- Terms of the loan were as follows:

Princiapal Amount = \$38.5 million

Maturity Date = December 20, 2000 subject to extension to December 20, 2001

Interest Rate = LIBOR + 2.5%

Commitment Fee = .25% annually on the sum of the average daily unused portion of the commitment.

Facility Fee = 1% of the commitment amount

 In November 2000, one month preceeding the initial maturity date, LJM2 paid the loan and interest off in full.

Unknown

From:

Wagner, Eleanor [CRRM] Wednesday, December 05, 2001 3:50 PM Fox III, William T; Capian, Rick [Fi] Warren, Doug [Fi] RE; Ene settlements

Sent: To: Cc: Subject:

We aren't required to settle the TRS on Yosemite now are we? If we did, would that cause us to put these deals on our b/s, or would we have the TRS banks hold the certificates?

rrom: Fox III, William T

Sent: Wednesday, December 05, 2001 3:26 PM
To: Caplan, Rick, [F]
Cc: Warren, Doug [FI]; Wagner, Eleanor [CRRM]
Subject: RE: Ene settlements From: Sent: To: Cc: Subject:

We do not have cash to give; not sure how to deal with it; will try to check it out.

From: Sent: To: Cc: Subject:

Know you are very tied up so I thought I would email you rather than continue to play phone tag. We have been pressured by our counterparties on the total return swaps written on the equity in the Yosemite deals to settle the deals asap. As senior unsecured recoveries would need to exceed 90% for the equity to have any value, the counterparties are looking for par payments to end the swaps.

Under the agreement between the GRB and the Credit Derivatives Trading Desk, the GRB agreed to keep us whole on the equity. Therefore, we would request that we settle out with you in order to settle out with our counterparties. How do you pay cash - is it through the loan book, or is there another route (we need the cash to settle the swaps)?

Also, the mark to market on the portfolio swap in which Ene wrote us credit protection on a basket is \$19,895,849,087. We need to settle out this deal as well. We know the margin is limited, so again, how do we get reimbursed for the counterparty exposure taken by the GRB (again, we will have to pay cash to break the trade with our counterparties on the other side)?

Appreciate your attention.

Regards,

Rick

Permanent Subcommittee on Investigation EXHIBIT #191o

ENRON - YOSEMITE

Investment Dealers' Digest Article

ON DECEMBER 6, 1999 THE FOLLOWING ARTICLE ABOUT THE TRANSACTION APPEARED IN INVESTMENT DEALERS' DIGEST

WALL STREET IS BECOMING EVER MORE SOPHISTICATED IN FIGURING OUT WAYS TO APPLY NEW DERIVATIVES TECHNOLOGY TO THE BASIC CORPORATE FINANCE NEEDS OF ITS CLIENTS. AS EVIDENCED BY ENRON CORP'S RECENT PRICING OF \$750 MILLION IN SYNTHETIC BONDS THAT REPACKAGE THE CREDIT RISK OF STRUCTURED BANK LOANS.

The bonds, called LEOs or Linked Enroh Obligations, were created by Citigroup through a technique that combines credit derivatives, securitization, and traditional fixed-income structures. The complex procedure achieves a simple goal: It transforms structured bank loans from a single corporate borrower into instruments that the capital markets can digest.

"The goal was to create something that looks and acts like an Enron bond and sell it to the people who buy Enron bonds," said Rick Caplan, a VP in Salomon Smith Barney's derivatives capital markets group.

Enron, like many companies, relies on a variety of structured bank loans to finance specific assets. For example, when financing its corporate headquarters. Enron used a common lease structure that provided significant tax advantages over a straight debt.

Although these structures offer the company unique benefits, there are also drawbacks — namely the unwillingness of banks to extend these loans for long periods of time. Structured loans are generally limited to tenors of two to three years, with rare facilities running five to seven years. The reluctance of banks to offer longer loans comes primarily from their hesitancy to take on significant levels of corporate credit risk.

To help address this problem. Wall Street applied derivatives structures that isolate credit risk. For Enron, Citigroup used a swap default structure to wrap a trust - Yosemite Securities Trust 1 - that holds 5850 million in Enron structured bank loans. The swap, which was provided by Citibank, 'sanitized' the risk of the assets in the trust, with the structural risk remaining with Citi while the credit risk was stripped off, said Adam Kulick, a Salomon derivatives VP who also worked on the deal. That credit risk was then packaged into securities, the 8.25% five-year LEOs, which resemble Enron's plain vanilla debt. The synthetic bonds, which were sold in a 1444 transaction last month through lead manager Salomon Smith Barney, mirror Enron debt so closely that they carry the same credit rating as the company's senior unsectured debt-BBB+ from Standard & Poor's and Baa2 from Moody's Investors Service.

In fact, the structure is so effective in separating the structural and credit risk that neither the deal's investors nor the ratings agencies ever know exactly what assets are held in the trust. From their perspective it doesn't matter — the securities they are analyzing carry only Euron credit risk. The LEOs priced at a spread of 23.75 basis points over the comparable U.S. Treasury, a level that's about 100 bps wider than the spread on Euron's five-year senior unsecured debt.

Because it is passing the credit risks onto the capital markets. Enron has the opportunity to add years to the terms of its financing, which would cut its refinancing risks and costs.

In addition, Citi has the ability to sell default swaps in Euron's name out of the structure. Enron and Citi in the future could issue default swaps running as far out as 10.20 or even 30 years. That would effectively hedge Citibank, making it merely an intermediary in the transaction.

The deal illustrates the extent to which corporations can benefit from innovations in derivatives structuring. It also demonstrates the potential of closely integrated bank and capital markets operations — a point that Citigroup is anxious to drive home. "This is the first time that people have really thought through how CLOs and derivatives technology can be used together in general corporate finance." Kulick said. "The market is going to move in this direction, and we're looking to apply this technology as broadly as possible."

CITIBAN(O'

SALOMON SMITH BARNEY Members of attornuo

Permanent Subcommittee on Investigations EXHIBIT #192a

E 23643

GCIB Checkings on Michael Kopper/LJM

James F. Reilly, GC1B, Houston

I spoke with Jim on 7/23 concerning the Michael Kopper transaction. He mentioned that he and Bill Fox had met with Michael Kopper and Andy Fastow the previous week and were aware of the sale of LJM to Michael...

Jim explained that he was the account manager for the Enron relationship and has had past dealings with Fastow, Kopper and LJM. In fact, Jim stated he was responsible for "forcing the issue on Citigroup/Travellers' investment in LJM2. The initial investment in the fund was based solely on Enron's relationship with Citigroup, not potential investment returns. Nonetheless, the investment has turned out well for Citigroup and they plan on staying with the fund even after the sale to Michael Kopper.

Jim believes that Michael is a very smart man and the fund will continue with its close ties with Enron and be successful. In Jim's opinion, Enron is in significant need of a fund like LJM2 to manage its asset base and shareholder return.

Jim had absolutely no character issues with Michael or our involvement in the proposed transaction. In fact, we are viewed positively for taking on this transaction.

William T. Fox, GCIB, New York
I spoke with Bill on 7/23 also. Bill relayed that there were no issues with LJM, Kopper or Fastow. Citigroup is favorably disposed to Enron. The LJM relationship is another facet to the global relationship. He believes Michael id very bright and has for the most part been responsible for all the analysis and structuring in the LJM portfolio.

Bill sees no issues with us financing Kopper and has no character issues with him personally.

> Permanent Subcommittee on Investigations EXHIBIT #192b

citigroup investments)

To: Mary Lynn Putney

CC: Hunter Reisner, Craig Farnsworth

From: Steve Hartt

Date: January 24, 2001

Re: Review of LJM2 (Enron Fund), and Recommendation for LJM3

Enron is in the market to raise LJM3, the follow on fund to LJM2 which Citigroup committed \$15 million (\$10 from Citibank, \$5 from Travelers). Enron has stated to Jim Reilly (\$SB account manager) that there are no negative relationship implications should we choose not to participate in LJM3. Given this and the points discussed below, I recommend that we do not participate in LJM3.

Low Cash on Cash returns.

Returns on fully and partially realized investments to date are all positive, high RR but low (1.4x) cash on cash. Based on LJMs projections, the Fund is not likely to return more than 2x cash on cash. However, it is too early to tell if such returns will be realized, in part because the investments are relatively new but also due to the highly structured nature of the transactions (see below).

High exposure to share price fluctuation, particularly Enron.

The returns of many transactions completed (38% by number, 43% by amount) are based (in whole or part) on Euron share price. 65% of the projected Fund gains depend on flat or rising share prices, particularly Euron's, based on LIM's projections. In committing to LJM2, we understood that the Fund would be relying on Euron directly for transactions and indirectly on Euron's credit strength (as the party the Fund could put assets to). We have been surprised at the number of transactions that are reliant on Euron's share price for success.

Mitigating this risk, LJM2's principals have sought to hedge this exposure through contracts back to Euron. Additionally, LJM2 principals argue that Euron would make the Fund whole should it suffer losses because the vehicles that the Fund invests in are critically important to Euron's ability to manage its earnings. Fortunately, this thesis has not had to be tested yet.

Some investments are not attractive to Citigroup in the Fund.

The Fund invested in debt and equity of 2 CLOs. Citigroup could invest in CLOs without carry. These investments represented 13% of deals done and 14% of capital invested.

Complex investment structures make it difficult to assess risk and reward.

The Fund's investments are typically highly structured making it difficult to understand the key drivers of returns and related risks. This has made it difficult to assess the riskiness of the transactions and their potential outcome.

Permanent Subcommittee on Investigations
EXHIBIT #192c

CILLARON

Enron Credit Review

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Permanent Subcommittee on Investigations
EXHIBIT #192d

Citigroup Relationship Review

Enron provides significant corporate and investment banking revenue to Citigroup.

roduct Group	1998	1999	2000	Total
yndication	\$42	\$6,181	\$632	\$6,855
tructured Deals	10,597	16,674	7,238	34,509
ixed Income	270	5,934	6,192	12,397
Derivatives & FX	3,637	5,171	27,607	36,615
Equities	0	2,776	3,729	6,505
W&A	0	3,100	0	3,100
Loans	1,040	142	(469)	713
reasury & Other	2,444	4,348	5,248	12,039
	\$18,231	\$44,326	\$50,176	\$112,733

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Citibank Exposure Analysis

Detailed Description of Facilities

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Cash Lines	Total Cash Lines	43.990	4+	, 07/31/01
Enron North PSR	Denvarives	6.719	4+	11/29/01
Enron North PSH	Derivatives	6.627	44	05/31/02
Enron North PSR	Derivatives	16,668	4	05/31/04
Enron North PSA	Derivatives	37,320	4	05/31/06
P.SR for \$250MM Prepay	Derivatives	12 750	÷	12/31/01
	Total Derivatives	80 084	44	05/31/02
FX/PSA	Total FX Lines :	10.186	4+	07/31/0
Enron Funding	Enron Corp	42.000	4+	. 03/27/02
364 day PVC	Enron Corp	65,930	4	05/13/03
New L/C Facility	Enron Corp	18.837	4	05/14/03
5-year PVC	Enron Corp	33,333	4	05/18/05
	Total Enron Loans	160,100	4+	03/27/02
Nahanni	Structured	24.250	5	12/31/04
TurboPark	Structured	6.188	4	03/31/08
JEDI II Loan	Structured	5.000	4	06/29/02
Coal Monetization	Structured	6.159	4	09/30/12
Gas Prepay	Structured	250.000	4+	12/31/01
. New JT Holdings	Structured	30.000	+	12/06/01
Rawhide	Structured	50.000	4	03/29/02
TurboPark	Structured	68.813	4	90/15/09
Yosemile 1	Structured	37,500	4	11/18/04
Yosemile 2	Structured	15.834	4	01/31/07
	Total Structured Deals	193,744	2 to 4	12/06/01
Dabhol	Non-Recourse	7,143	6	03/31/06
Dabhot	Non-Recourse	47.855	6	03/31/09
Bahra Cas Minas	Non-Recourse	10.000	÷	05/30/04
Empresa de Generac	Non-Recourse	7, 125	5+	09/18/07
Elektro	Non-Hecourse	31,000	÷9	05/30/04
Elektro	Non-Recourse	1 248	5	07/31/01
	Total Non-Recourse Deals	104 371	4-109	10/15//01
Credit Demannes	Less Credil Derivative	(45.000)	44	05/18/05

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Citibank Exposure Analysis
Summary of Structured and Non-Recourse Facilities
(\$\xi\$ in Millions)

Name	, Detailed Descripton
Nahanni	Supports a \$485 million live year revolving loan made by CXC, collateralized by a preferred LP interest in a partnership holding \$750 million of Enron intercompany notes, Pref. shares of Houston Pipeline, T-bills and cash (T-Bills). The amount of T-Bills and cash must at all times be equal to the amount outstanding under this facility.
TurboPark	Facility is used for the purchase of 91.75%. A-Notes (Enron guarantee) and 8.25% B-Notes (look to collateral). Funds will not be distributed from this facility after 3/31/04; however, this facility has an outside Maturity Date,of 3/31/09. Purpose is to linance the construction and development of gas finde electric generating assers including fixed and soft costs related to future projects not yet identified.
Coal	Senior Unsecured recourse to Enron. \$150MM monetization of a royally stream payable by HL&P, funded via CXC. The HL&P risk was fully sundinated
JEDI II Loan	\$250MM RC Facility available to Joint Energy Development Investments Limited Partnership ("JEDI II"), a 50/50 joint venture partnership between Enron Corp. and the California Public Employees' Retirement System ("CalPERS"). The loan is overcollateralized by investments and additionally by unlunded equity commitments from Erron.
Gas Prepay	PSR line for this loan is a \$250MM, 180-day financially-settled, unsecured gas prepay guaranteed by Enron. Termination will be upon settlement of the Jan '02 gas contract on the NYMEX (12,27), but expected to be unwound early in the 4th quarter.
New JT Holdings	
Кампиде	The Facility underprins a \$750 OMM 3-year portion moneitzation structure for Hawhitel investors LP, a special purpose company owned by Euron Corp. Consists of (i) a \$725 s million 3-year term foam made by CXC inc., and (ii) \$22.5 million of equity interests. The Rawhitel investment footbloop is secured by a Debi Service Reserve, Which confirms Front definition.

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Citibank Exposure Analysis Summary of Structured and Non-Recourse

se Facilities

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Name	Detailed Description
Yosemile 1	Citi. synthetically purchased \$37.5MM of equity certificates of Yosemite Trust via a total return swap with an investor (Balance Sheet Provider) who actually funds the equity investment.
Yosemite 2	\$200 million of Linked Enron Obligations and \$22.25 million of Equity Certificates. Citi takes ½ of Equity. Yosemite 2 is the same transaction as Yosemite 1, except the transaction was denominated in Sterling.
Dabhol	Citibank's take as Lead arranger in 7-year limited recourse re-syndicated Euro Loan related to the construction of a power plant and LNG Facility.
Dabhol	Citibank's take as Lead Arranger on a US Dollar denominated senior secured 10- year limited recourse Euro-loan credit facility and insurace against credit risk related to the construction of a power plan and LNG Facility.
Bahia Las Minas	\$10MM 3-year loan to Bahia Las Minas Corp. (BLM Corp.) is a power company 51% owned by Enron International Panama. S.A. and 49% by the Government of Bahia Las Minas Panama. The facility is secured by real estate and will be repaid with proceeds from the disposition of the assets.
Elektro	Non recourse to Enron Electricity distribution company for the Brazilian state of Sao Palo. Variety of tines/facilities.

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40

Pipeline Trading Multiples
Trading Multiples for Selected Pipeline Companies
(\$5 m Milliples)

ū	1	- P			88				601	
	Bool	Value	3.7	9.0	2.3		3.9	3.7	33	2.3
	9	2002E	21.0x	13.8	12.5	•	21.0x	13.8	15.8	12.5
Price/	Vet Incom	LTM 2001E 2002E	25.1x	15.9	14.4		25.1x	15.9	10.5	14.4
	_	ΣĮ	47.1	22.2	15.4		47.1x	22.2	28.2	15.4
	Firm	Value	\$44,369	45,097	26,638		:	;	:	:
Eduily	Market	Value	\$34,007	27,098	16,380		;	:		4
	Veek	Low	8.5%	19.6	12.7		19.6%	12.7	13.6	8.5
	% of 52 V	High Low	(49.8%)	(29.3)	(29.8)		(29.3%)	(29.8)	(36.3)	(49.8)
	Stock	Price	\$45.58	53.22	33.80		ligh:	Median:	/ean	OW:
				rgy	прапе	1	_	~	~	-1

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Pipeline Trading Multiples

Trading Multiples for Selected Master Limited Partnerships with Pipeline Assets

	Price at	Equity	Firm	FV/EBITDA	BITDA	LTM Unit	L'TM Unit Coverage	Yield	5
	(8/2/01)	Value	Value	2001E	2002E	Senior	Total	E.	Indicative
Pipelines & Transportation									
Buckeye Partners P -	£36 20	£1 40c							
	00.00	001	255.14	_	12.4x	~ -	ŏ	%9 9	%9 9
ti Paso Energy Partners, L.P.	35.20	1,766	2,254	14.8	12.1	1.4	-	6.3	5
Enterprise Products Partners, L.P.	43.80	3.185	2 807	100			- :	0	0.0
Napod Open Lead Napod N	0 1	5	2,037	16.3	0	6	14	4.9	5.4
Adried Pipe Line Pariners, L.P.	37.27	789	1,055	9'01	10.3	1.2	6.1	3 6	7
Kinder Morgan Energy Partners 1	71 17	0 364	11,421				9	C.	C.
a transfer of books to		5	5	10.0	50	2.3	1.2	52	5.9
Cancined Lips Line Familiers, L.P.	45.45	1,536	2,246	11.2	10.3	-	0	7.7	1.1
Northern Border Partners, L.P.	37.56	1 779	3 323	0	G		5		, ,
Plaine All American Displace L.			0,000		9.0	٥.	-	7.5	69
י ומיווס טון טוויפוויכשט בולבוווה' ד'ל-	25.45	66	1,390	15.1	10.8	- 8	13	7.3	3.6
Shamrock Logistics, L.P.	32.90	622	.099	12.5	0 2			3 6	C. ,
TEPPCO Padobis 1 P	01.10				5	,	-	. /	7.3
Market Commission Co.	31.10	916,1	2,309	12.1	11.8	1.2	0	6.7	6.7
williams Energy Partners, L.P.	30.65	355	433	11.5	-	0.0			
			-			ì	2	9	6.9
Median of Pipelines				12 1x	11 34	-		100	
					5	5.	×-	5	000

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Pipeline Trading Multiples
Trading Multiples for Selected Master Limited Partnerships with Pipeline Assets

(0/2/01) Value Duckope Partners, L.P. \$36.30 \$1,186 El Paso Energy Partners, L.P. 35.20 1,786 Karde Pipe Line Partners, L.P. 43.80 3,185 Karde Pipe Line Partners, L.P. 37.7 789 Kinder Morgan Energy Partners, L. 71.77 9384	Value	1 4/1	FV/EBITDA	LTM Unit Coverage	Coverage	Yield	Þ
\$36.30 35.20 43.80 37.27 71.17	2	2001E	2002E	Senior	Total	ML	Indicative
\$36.30 35.20 43.80 37.27 71.17	-						
35.20 43.80 37.27 71.17	\$1,448	12.8x	12.4x	1.24	č	6.69	60
43.80	2.254	14.8	121		Š -	80.0	0.0
37.27	3.897	12.3				2.5	0.0
71.17	1,055	10.6	10.3	5.		4 4	4.0
	11,431	16.8	153	23.	, <u>.</u>	. r.	0,4
L.P	2,246	112	10.3	-	. 0	77	6 6
37.56	3,323	9.3	8 8	91	- 0		
line, L.P 25.42	1,390	12.1	10.8	8	. 6		- 2.
32.90	663	12.5	9.5	2.4	=	2.7	2 2
	2,309	15.1	11.8	1.2	10	5 7	5 6
	433	11.5	11.3	2.0	1.0	6.9	6.9



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CTIBAN(O) SALOMONSWITH BARNEY

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Enron Corp.

Presentation of:

DIRECT AND INDIRECT LIABILITY SCHEDULE

October 24, 2001

CITI-SPSI 0045020

Permanent Subcommittee on Investigations EXHIBIT #192e

1 12.75 PSR Labol Las Misss Sy00M Loan S10 MM State Raing. 4: Cash mergin peaced firther of underlying Loan S10 MM	Norne	Str.	Meturity Date; First Date funds must be avellable	1ype¹	Chigroup Exposure	Security	What happens if the assets are worthless	Early Repeyment Triggers	Events upon Enron benåruptcy	Known investors	Enron cordact name + phone number
Sydook Loen Sidokk Stit Pading C;	250 GRB Prepaid / 12.75 PSR	1	10/12/21	Prepaid	\$263 MM	Risk Rating: 4+ Cash mangin posted if price of underlying commodity goes above 54.055 / unit					
\$1500 MM 22/2006 Blind VPP 50 \$1500 MM 12/21/01 \$1500 MM Risk Raing 6+ \$1500 MM 12/21/01 \$1500 MM Risk Raing 6+	Babia Las Miaas		5/30/04	Loen	\$ 10 MM	Risk Basing, 4.; Sto MM 3-yr bass to Babia Las Minas (BLM Cott), power company 187, for over by Errors International Passars, 374 M 50-75, by the Government of Passars. The fielity is scented by real casts and will be repaid with proceeds from the disposition of the assets.				-	
\$150 MM 1222/00 \$1510 MM 1222/00 \$2.0 MM Risk Raing 4* \$150 MM 1222/00 \$1510 MM 1852 MM Risk Raing 4* **Sunio weecured recenter to Enrun The membratistics of Table Annie Ta	Brazil 3 Yr.		5/30/04		S31 MM	Risk Rating: 6+					
\$159 MM 122101 \$1:0 MM Risk Balling 4+ Serior unsecured recentre to Enror The monetations of Serior unsecured recentre to Enror The monetations of Serior unsecured recentre to Enror The monetations of Serior unsecured recentre to Enror The monetation of the Serior Ser	Brans River Trest	\$200 MM	273706	Blind VPP	æ						
	Cont	\$150 MM	12/21/01	\$120 MM monetization of a royalty stream payable by HLAP, funded via CXC.	\$6.2 MM	Risk Buing: 4+ Scrior unsecured recourse to Esron. The HL&P risk was fully syndicated.			•		
¹ Bord, Lean, Symbotic Lease, Total Ratum Swep, Prepaid, Contingent Capital Commitment, Share Trast, First Loss Piece, other I talk sets underlying immassion and any other structural risk miligants. Ratings based, asset valuation.	Destroy		3/31/09	Lid. Recourse Loan	\$55 MM	Birk Baring 9. Citibank is Laad Atmages on a US Doller commission farms exected Days in limited recome Euro-loon reads the littly and Mentanes against credit factor for the construction of a power plant and LMS Feeling.				•	
	1222	ond, Loan, Synt ist assets underly stings based, ass	helic Lease, Total R ring transaction and ets valuation	tetum Swap, Prepi I any other structu I	aid, Continger ral risk mitigar	Capital Commitment, Share Trust, First Loss Piece 118	s, other				

Enron Direct and Indirect Liability Schedule

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Herne	Stre	Maturity Dete; First Dete funde must be avelleble	Type,	Citigroup Exposure	Becurity? .	What happens if the assets are worthless	Early Repayment Triggers	Events upon Enron benkruptcy	Known Investors	Enron contact -name + phone number
ECLNI	Notes = 5500 MM Equity = 550 MM	\$013,003	Bond	98	Trust Investments; Sithbank digital and a Sito MM, rights under Credit Swap; Euron Deliverable Obligations; money in collection account	10% Equity takes first loss on defaulted Trust investments; look to Citibent under Credit Swap until Enron Credit Event occurs	Enron Bankrupicy; Enron Failure to Pay (threshold \$25 MM or equivalent);	Clibrat as swap counterpart has 60 days to cheel to physically settle the Credi Swap. Deliverable Obligations — Error serior — Error serior (i.e. Prepal III phus (ii.e. Prepal III phus Errors Motel III)	Note = 144A, Reg S Enron & structured paper investors: Certificates = ING Berings	Barry Schapper 713-853-0944
Prepaid III	MM 5173 MM	7/14/03	Prepaid	a	Hedge provided by ECLN i Credit Swept, Citibands delivers swap claim in exchange for the Trast Investments. Any marked-to- market amount greater than the CLN amount is covered by amount is covered by amount is covered by		•			
P Enron Note III 525 MM	125 MM	7/14/05	Promissory Note	93	Hedge provided by ECLN I Credit Swap as above.					

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Merne Site	,	Maturity Dete; First Dete funds must be avallable	Type'	Citigroup Exposure	Security ²	What happens if the assets are worthless	Early Repayment Iriggers	Events upon Enron benkruptcy	Known investors	Erron contact -name + phone number
ECLN II Notes Figure Motes Equity Notes Figure Motes Equity	Nota = 5500 Equity = 550 Roca = £200 Equity = £21.5 Nota = £125 Equity = £14	5/15/06 5/24/06 5/24/06	Bond	\$	Trust investments; Citibank deposit 1559 MAI, £22.2 MMI, £139 AMA; mght under Credit Swep; Enton Deliverable Obligations; money it collection account	10% Equity tekes first loss on defaulted Trust Investments; look to Circliank under Ceedit Swap until Credit Event occurs	Entry Bankruptcy, Entron Failure (Inveshold 325 MM or equivalent)	Citibank as swap Citibank as swap to elect to physically settle the Coroll Swap Deliverable Obligations Enrow assior energened obligations (i.e. Prepaid IV plus Enrow Nose IV)	Note = 144A, Reg S Enron & S Enron & S Enron Enrolled Investors Certificates = ING Barings	Dan Boyle 713-853-1532
Frepaid IV 5473 MIM 6109 5 MIM 6109 5 MIM	1475 MM E170 MM E109.5 MM	4/14/06	Prepaid		Hodge provided by ECLN II Credit Swap, Citibank Gelerias swap claim in exchange for the Trust lavestments. Any marked 40. market amount greater than the CLN greater than the CLN seams it covered by					
P Enron Note IV 525 MM E15.5 MM	MM MM	4/23/06	Promissory Note		Hedge provided by ECLN II Credit Swap as above.					
Empreta de Generac		6/18/07		\$6.75 MM	Risk Rating: 5+					

Etabrica 573 MM 9/3002 Rick Etaling 64 Non Executivity Gelinguise company For the Dazilian since of Sao Pouls, Variety of lines / Lecilities. JEDI II 3239 MM 6/21002 Loan \$3 MM Rick Ruling 4. Sign MM RC Peclity waithble Sign MM RC Peclity Processed Sign MM Sign Peclity For A Notes Facility Rectify Sign MM Sign Pecling For A Notes	Maturity Dest; First Dest funds must be evellebe	¥ §	CHgroup	Security	Maturity Deser First Deser First Deser First Deser First Deser First Deser First Deserved First	Early Repayment Tringers	Evente upon Enron bankruptcy	Known	Enron contact – neme + phone number
1 6/21/02 Lean SS MM 12/06/01 Liquidely SSO MM Backensp Facility	575 MM		\$365,000	Risk Raing: 6+ Non Recounse to Enro. Electricity disribution company for the Brazilian state of Sao Paulo. Variety of lines / facilities.		-			
S90 MM 12/06/01 Liquidity S30 MM Backsop Fecility		Loan	85 MM	Rick Bring, 4. Existy vanishe to Jato Man Tay OMA Mr. Credity vanishe to Joint Greez, Development in horstment Limited Forsteenship (JED II), s. 5059 JV panteenship Development and the California Politic Employees Relitement System (CHERS) The John 15 overcollatenshired by investments and additionally by undeed					
	\$90 MM			Risk Rating: 4+ \$90 MM 364-d Liquidity Backstop Facility For A Notes		·			
				Story of China					

Exposure Security What happens if Early flagsment Events upon the contest special contest and the security because a problem of the contest o
derived proceeds from a non-investment of which Certain electron proceeds from a fine neighby SAP with Certain or Moody to fittle mentafeing of manufacing of mentafeing of manufacing of mentafeing of manufacing of mentafeing o
Investors loss their Erron non-investment Acceleration TCW cultic investment grade usings Erron Liquidation AMBAC part sectoration Landungscy landungscy

Control 1/15/03 Bond 1/15/04 B	ē.	ā	Meturity Date; First Date Areds must be gvallable	- Ball	Citigroup Exposure	Security .	What happens if the seess are worthless	Early Repayment Triggera	Evente upon Enron benkruptcy	Known	Enron contact - name + phone number
'	Osperey	States Control	7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	Bond (Share Trust)	3	Enron MCPS; Whitering asset (27.03 BN) contribute of Merchant (i.e. equiv) 55/33 MM, where and in the contribute of Merchant (i.e. equiv) 55/33 MM, which was 11.10 (Neso) 53/30 MM, Nesmire Cetal 1 & 19.00 MM, Vecenic Cetal 1 & 19.00 MM, According 1.10 (Neso) 53/30 MM, Things (Enthy) 63/30 MM, Th	invations book to proceeds from proceeds from proceeds from Error MarCh Error March MCPS. Error March and Cash top sp from Error	Envir non-investment and	Within certain time periods, remarketing of fems MCTS or other Ermon shares; Cash top up by Cash top up by assets	,	Barry Schnapper 713-833-0944
1-7-	Trepald	\$200 MM	2002	Chase Prepaid		-					
1-77	Prepaid	\$200 MM	2002	CSFB Prepaid							
1-45	Rapter										
Bond Loun, Symbek Later, TRS, Prepaid, Contingen Capital Commitmen, Share Trusi, First Loss Piece, other Latt users underlying transaction and my other streamed that miligans. Ratings based, acter valuation							-				
		Bond, Loan, S) List assets und Ratings based,	ynthetic Lease, TRS, erlying transaction as assets valuation	Prepaid, Continge and any other struct	en Capital Co Iural risk mitig	mmilment, Share Trust, First Lo jants	iss Piece, other				
CAVELLO			-						CTIBANCO.		

	Maturity Desk; First Dese funds must be predicible	Type'	Chlgroup Exposure	(Becurity)	What happens if the sessite are worthless	Early Repayment Triggers	Eventa upon Enron benkruptay	Known krweetors	Enron contact name + phone namber
Rawhide \$690,7AfM	3/03	Minority Interest	S49.3MM	Oil & ges infrastructure investments; Enton demand loans	Call on Euron demand loans	Enron cross- sceeleration / bankruptcy	Accetention / Léguidation	TCW LIM2	Trevor Randolph 713-345-7751
Stadacean 5375 MM	6/23/06	Sewciured		Papermili Deal - with credit support by Euron of a food returns awap that allows broken to book to Euron for full interest and principal payments after an errors of default.	A	-	er e	-	Doug McDowell 713-833-77(0
Standance 5936 MAA Carrets State Sta	6004: 6/08	JV Pathorship Streether	Super Senior Equity Tranche: -Currently \$22.5 MM funded -Committed but unfonded auditional \$160 MM	Garden State, SATXO, Stadeover, Fishesi (pulp & Japov topouling feelinise and making boot) Sentensia beliny to liquidate within appear. Il quidate within appear. Il days	Partnesship required to have cash equal to our equity investment, Hold St. position on dissolution.	Trigger dissolution and payout anytime at SHBC discretion.	Parineship dissolves and liquidates. Chigroup holds St. position in proceeds.	ENA, EIM, Enroq, SBHC	Bill Brown 713-853-6396

Enron	Direc	st and	Indir	ect L	Enron Direct and Indirect Liability Schedule	•				
1	# 8 ·	Maturity Date; First Date funds must be available	Ţ.	Chigroup Exposure	Security*	What happens if the assets are worthless	Early Repayment Triggere	Events upon Enron bentruptcy	Known investors	Enron contact -name + phone mamber
Terbe Pert	3600 MM 8250 MM	3731.08	[Synthetic Lease]	\$62.9 MM \$6.2 MM	Eink Baing 4+ (A Nesc) & 4 (18 Nesc) Einfrij to and for the purchest of 91.75%. A Nest (Envey garantee) and 1.23% B Nest (Nest (Envey garantee) and 1.23% B Nest (Nest (Nest (Enve)) Einfrij y also (2) (19 Nest (Nest (Nest (Enve))) 2.17(0). Toppose is to finance the 2.17(0). Toppose is to finance the 2.17(0). Toppose is to finance in 1.04 (Info Meetic generaling sasted including 1.05 (Info Meetic generaling sasted including sasted including sasted sasted including sasted sa				-	
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									,	
Bork	ed, Loan, Synthet	ic Lesse, TRS. Pre	paid, Continger	m Capital Com	Bood, Loan, Synthetic Lease, TRS, Prepaid, Contingen Capital Commitment, Share Trust, First Loss Piece, other					
, Ratio	Last assets underlying Hansaction Ratings based, assets valuation	LIST ASSECT UNDERLYING TRINSKLION AND ANY OTHER SUPERIUM TISK INTEGRALS RATINGS BASECT VALUATION 1. R	ny other structs	AN MARK MARKA						

Enror	n Direc	:t and	ipu	rect	Liabilit	Enron Direct and Indirect Liability Schedule	<u>•</u>			
Nome	• • •	Maturity Dess, First Dess funds Ause be systemble	ž	Citigroup	Security	Wissi heppense if the sekets are worthlass.	Early Repayment Telggera	Éverna upon Enton Benkruptury	Kitown https://exa	Enron contact -name + proces
Yearnite 1	Notes = \$750 MM Equity = \$75 MM	11/15/04	Bornd	2	Risk Raing, 4+ Trust Investments (Enver Prepaid 1 & Enson Note I); Rights under Credit Swap	Luck to Citibunk under Credit Swap unell Euron Credit Event; After Euron Credit Event proteed from settlement of Credit Swap	Encon Benkupkey, Benkupkey, Pan (ikreshold \$23 MM or equivalent)	Citibank has option to softle swap; eash or physical settlement at any time affor bankungey; may saile with investors port cavat decision.	Note = 144A; Reg S Estron sincetured paper investors Certificates = 50% Fleet, 50% Opprey	Barry Schrapper 713-813-094e; Post McDowell 713-853-7710
P Prepriet	\$800 MM	10/26/04	Prepaid		Hodge pravided by Vosenite i Credit Swap: Critical Gelivers swap claim in exchange for the Trust towestments.			The state of the s		
P. Eurachates 525 MM	\$25 MM	10/26/04	Promissory Note		Hedge provided by Yosenite J Credit Swap as above.	The state of the s			,	
a				. * *						And the state of t
					,					
1 2 2 4	Bond. Lonn, Systhetic Lone, TRS, Prepaid, Comingen Capital Commit List serset underlying transcriber and any other translusal trisk miligents. Astings beach, sessor selections.	ric Lona, TRS,	Prepaid, Conti d any other str	ngers Capital softerst rick m	Conurctment, Shate Tr utigants	front Lann, Synthetic Lenus, TSS, Propaid, Consingent Optical Commitment, Share Tout, First Lass Pince, suber The street workships procession and any other treatment finith miniparis Astings based, sexto selection.				
								ARGILL	Correspondence of the Correction of the Correcti	

Hene	#	Maturity Deer; First Deek funds must be available	, egyt	Chigroup	Security?	What happens if the sessits are worthless	Early Repayment Triggers	Events upon Ereon benkruptcy	Known investora	Ehron contact - name + phone number
Yoremile II	Notes = £200 MM Equity = £22.5 MM	708276	Bond	8	Risk Rating: 4+ Trust Investments (Earnos Prepaid:11 & Earnos Note 11); Rights under Credit Swap	Look to Citibank under Credi Swap until Enron Credi Event, After Enron Credi Event proceeds from	Enron Bankruptey, Earon Failure to Pay (threshold £15 MM or equivalent)	Citibank has option to settle swap; cash or physical settlement at any time affor bankrupkcy; may settle with investors	. 1	Barry Schumper 713-853-0944; Doug McDowell 713-853-7710
► Prepaid II	£206.75 MM 1/22/07	172701	Prepaid	,	Hedge provided by Yosemite II Credit Swap; Citibank delivers swap claim in exchange for the Trust lovestments.			Court Court Government	Admin	
P Enron Note JI £15.5 MM	£15.5 MM	10201	Promissory Note	t.	Hedge provided by Yosemite II Credit Swap as above.					
					•					
		•								
								٠		
Bond List a List a Ratin	Bond, Loan, Synthetic Lease, Ti List assets underlying transactio Ratings based, assets valuation	Lease, TRS, Pr transaction and raluation	epaid, Contin	gent Capital C. sctoral risk miti	ommiment, Share Trus gants	Bood, Loan, Syntheis Loze, TRS, Prepaid, Contingent Capital Commitment, Share Trust, First Loss Piece, other I List sustess underlying transaction and say other structural risk mitigents I Railogs based, assets valuation				
								CYTHAM	CTRAMON	

Styles Str. Str.	Terrans 10	1	Maturity Date; First Date funds must be available	į	Chigraup Exposure	Becuth?	What heppens if the seests are worthless	Early Pepsyment Triggers	Evente upon Enron benkruptcy	Known	Erron contact nerra + phone number
RC \$1.35 BN \$51.885 RC \$13.3MA		1.75 BN	\$113,022	RC	\$66 MM						
Could Coul		1.25 BN	5/18/05	2	\$33 MM						
Privative Derivatives 130 MA Monthly Magning shores 144 154	Olibank Credit			Credit Derivatives	\$30 MM						
### \$13 MM \$27 NO ### \$19 BN ###################################	Commendity Pertradive Fransoctions				\$30 MM plus \$120 MM PSE	Monthly Margining above \$30 MM; most recent mark approx. \$25 MM; current margin posted approx. \$2 MM; FSE (i.e. potential move in a month) of approx. \$120 MM	V [*] *			-	:
819 BN 819 BN 619 SSON MM ST(40) LC ST MM Other ST I MM	faren funding \$3	135 MM	3/27/02		\$42 MM	-					
ейту <u>550 мм</u> <u>5149) LC 519 мм</u> Олье 571 мм	Equity Periontive				\$1.9 BN						
Oher \$11MM		500 MM	3/14/03	1,0	\$19 MM						
	Mher			Other	\$71 MM						
				-	* - '		- "				

Summary of Euron's Capital Market Exposure with Citigroup:

Current MTM:	(as of COB 10/26)	Collateral	Net Exposure
Derivatives	\$55,68M24	528.6MM	\$27.08MM
FX	\$1.4195		\$1.4MM
Pre-paid	x250MM		\$250mm
Futures	\$2.76MM		\$2.76MM
Phibro	587.7994	\$73MM	514.7121
LUTOTO			\$295,94104

Commodicy Derivatives

Commodicy Derivatives
The Citi Commodicy Derivatives' overall MTM w/ Enron was \$55.86MM(Enron Oves
The Citi Commodicy Derivatives' overall MTM w/ Enron was \$55.86MM(Enron Oves
Citibank) as of 10/26. These trades are documented under an ISDA with Enron
North America. The current threshold is \$30MM; collateral on hand is \$28.6MM.
The call frequency is daily: As per our agreement, the client has 24 hours to
post margin. The threshold declines to \$5MM, should Enron Corp. be downgraded
to BBB-/Baal and declines to \$0 should Enron Corp fall below BBB-/Baal. FSE on trades is \$153.2mm. Details on the gas and oil trades are below.

Natural Gas book

NATURAL GAS POOR.

Average life: 1 years

Maximum tenor: 7 years (DEC 2008)

Risk: Exposure to Enron increases as natural gas prices rise. 85% of deals

price off NYMEX contract: location basis risk is not significant. MTM

Increases \$1.50m for every +1% rise in natural gas price.

Stress: MTM increases by \$1000M should 3-year forward prices average \$6 (as in Winter 2000/01).

Oil book Average life: 3-4 years

Maximum tenor: 5 years (DEC 2006)

Risk profile: Exposure to Enron increases as refining margins narrow. There is no material exposure to outright (directional) prices. HTM increases 15 No Material deposite to determine the determine process that the tensor in a question crack spreads spreads. Spread exposures to jet fuel 4 heating oil cracks spreads are not significant.

Stress: MTM increases by \$50MM should forward gasoline crack spreads narrow from average \$3.25/barrel to \$1.50/barrel.

Poreign Exchange

There are also FX transactions with Enron Corporation, the current MTM is \$1.4 MM (Enron owes Citibank). PSE of 4.4 MM. These are primarily CAD. Euro, Mex. JPY with a small amount of Latam currencies. The trades are short term with tenors of one to six months. Latest maturity is Jan 2, 2002. There is no collateral agreement.

Pre-paid Forward

We have a prepaid forward where Enron must pay us back \$250MM in December. Using a triangular structure involving shell corporation/SPV called the Delta Energy Corporation, we loaned Enron 250MM in June 2001. They must pay the Energy Corporation, we loaned Enron 250mM in June 2001. They must pay the loan back with interest in December of this year. This is economically a loan, but it was set up via pre paid commodity forwards. This form of financing is advantageous to Enron in that it allows the borrowing to be reported as "price risk management" liability rather than debt. In addition, because of the way Enron classifies trading assets/liabilities on the balance sheet, the amount of the borrowing actually is recorded as cash from operations.

Putures

Futures initial margin requirements are \$5.4MM; variation margin is \$1.8MM. We provide a futures financing line for both initial and variation and we are

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currently financing the entire initial and variation margin requirement of S6.4MM. The client is net long 597 NYMEX unleaded gas contracts, net short 1,998 NYMEX Crude Oil and net short 125 contracts of NYMEX Heating Oil. Net liquidating value on the account is \$2.76MK(Enron over SSB).

Phibro has a current MTM of \$87MM (Enron oves Phibro), of which \$73MM is-Phibro has a current MTM of \$87MM (Enron oves Phibro), of which \$77MM iscollaceralized. There are three enticles trading with Phibro: Enron North
America which has a \$10MM threshold for Commodity Swaps and Options and a
\$2MM threshold for Emission Credits contracts. The threshold in the Phibro
agreements drops to zero of Enron is rated below investment grade by both
rating agencies. Enron Capital International has \$2MM of the above stated MTM
expocure, with no collateral agreement. The third entity is Enron Reserve,
all trades are closed, and the loss of \$700M to Enron is locked in. The receivable is due at the end of November.

CLNs
We have done 4 Credit Linked Note deals (totaling approximately \$2.3 Billion) We have done 4 Credit Linked Note deals (totaling approximately \$2.3 Billion) that essentially have allowed Enron to borrow funds in the public market and enter into prepaids. The investors have effectively "loaned" Enron the money, not Citibank. Citibank assumes basis risk. The basis risk being the difference between the recovery rate of a derivatives claim (which can be delivered to investors on the occurrence of an Enron Credit Event) and the recovery rate of a senior secured debt obligation. These deals were approved with zero FSE. (These deals are sometimes referred to as Credit Linked Notes or the Yosemite Structure).

The second of th

Prepared By:

Fisms Matrullo Murray Barnes October 29, 2001

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Due Diligence Findings

Project 10

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- **Executive Summary**
- Overview of Enron
- Financial Assessment
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 - Pipeline Valuation & Collateral
 - - VI. Citigroup Exposure
- VIII. Off Balance Sheet Financings VII. Trading Operations
 - A. Prepays B. Share Trust:
- Minority Interest Financings Share Trusts
- FAS 125/140s Total Return Swaps ("TRS")
- Guarantees, Leases & Non-Recourse Debt Other Structured Transactions ப்பெய்ய
- Appendix
- Citigroup Team
- Financial Market Reaction Financial Market Reactic
 Credit Approval Memo

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Purpose

To complete due diligence in conjunction with Citigroup's commitment to provide \$600 MM of financing to Euron.

The Financing

- \$1.0 B (\$600 MM Citi; \$400 MM Chase), 364-day Facility to a bankruptcy remote operating company owned 100% by Enron, secured by the stock and assets of Northern Natural Gas and Transwestern Pipeline Company.
- Proceeds will be used to provide liquidity to Enron and refinance our existing \$250 MM Prepay exposure.

Enron's Financial Status

- Enron is suffering from a severe liquidity crisis, and lack of investor confidence. Through 12/31/02, we estimate
 that Enron has no/limited short term sources of liquidity, and no/limited access to the capital markets. With a
 further loss of trading counterparty confidence, Euron could have an immediate and incremental \$1 B need.
- Adding back off balance sheet debt (excluding non-recourse debt), Euron's debt/Capital is 69% and Debt/EBITDA
 of 8.8x pro-forma. Rating agencies have downgraded Euron to BBB/Baa2 both with negative outlook. Fitch
 downgraded Enron to BBB- with a negative outlook. Enron's bonds are trading at 70-75 and its stock closed on
 11/5 at \$11.17/share, down from a peak of \$90.00 on August 17, 2000.

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Enron's Trading Operations

- Highly profitable, market dominant gas & power trader
- Risk levels moderately high but recently reduced 50%
- Significant liquidity needs going forward
- Reserve policy highly discretionary; prudency reserve currently \$1.2 B; used to dampen earnings volatility

Strategic Alternatives

- Enron has held discussions with potential private equity investors regarding the feasibility of a substantial capital
 injection
- Enron has also been in discussions with Rockne regarding a potential merger-of-equals, which would include an
 upfront investment of \$1.5 B in preferred stock in Enron's pipeline subsidiary. The upfront investment would be
 funded by Rockne's 26% shareholder, Heisman
- ◆ Other strategic investors have expressed interest in talking to Enron
- Euron's board has met frequently over the last 2 weeks and has reviewed the status of discussions with third parties. A decision regarding a merger with Rockne may be taken as early as November 7th

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SEC investigation

- The SEC has initiated a formal investigation into the dealings of Enron, its former CFO, and an investment partnership.
 LJM, run by the former CFO, focusing on related party issues.
- The investigation could well lead to broader scrutiny of Enron's accounting practice particularly as it relates to
 Enron's treatment for off balance sheet debt and revenue recognition.
- The scope and magnitude cannot be accurately determined at this time. A special committee of the Board has been formed and with outside legal and accounting advice, is investigating the matter. Enron's written response is expected within the week.

Citigroup Franchise Issues

 Citigroup has originated Enron structured transactions that provided off balance sheet and/or non debt categorized financings

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One equity investment of \$28 MM with an additional contingent equity obligation of \$160 MM Two Minority Interest Financings funded in the Citibank CP conduit market - \$1.24 B

• Six structured financings (CLN) with associated Prepays underwritten/placed into public markets - \$2.4 B

- One synthetic lease transaction funded in the Citibank CP conduit \$740 MM
 - One Financial "Gas" Prepay \$250 MM
- One Contract Monetization funded in the Citibank CP conduit \$150 MM
- ◆ Citigroup securitization vehicles have funded \$744MM of transactions with backstops provided by the banks
- Travelers/Citibank have invested \$15 MM in LJM
- ◆ LJM is an equity investor in one of our Minority Interest Financings (Rawhide)

Executive Summary Citigroup Exposure

- \$ 322 MM Direct Enron Risk
- \$ 314 MM Structured Enron Risk Unsecured (includes Prepay) \$ 211 MM Structured Enron Risk with Asset Support

 - - \$ 62 MM Non Recourse to Enron

- \$ 302 MM Equity Investment in Enron Affiliate \$ 302 MM Travelers Surety Bonds (\$. 65 MM) Credit Derivatives (expires 12/3/101)
 - \$1,174 MM Subtotal
 - \$ 600 MM of New Exposure
- (\$ 250 MM) Reduction of Prepay exposure \$1,524 MM Total

Structure of the Financing

Borrower is bankruptcy remote, unable to voluntarily file for bankruptcy without consent of all shareholders.

Secured by the stock and assets of Transwestern and Northern Natural Gas.

- We believe 73% of the value of the asset collateral can be fully perfected at time of funding (and within 10 days thereafter). 100% of the stock will be fully perfected at closing.

Value of Loan Collateral

Transwestern and Northern Natural are stable, consistent FERC regulated gas pipelines generating combined EBITDA of \$385 MM with a combined firm value of \$3.2 - \$3.5 B giving us a toan/value of 40%.

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Recommendation/Rationale

- We confirm completion of our due diligence and recommend both removing the due diligence contingency from the
 commitment letter and proceeding to financial close pending satisfactory review of Enron's response to the SEC
 investigation which is expected later this week;
- We have a bankruptcy-remote structure with perfected collateral that provides significant collateral coverage; and
- We provide the company with additional liquidity to execute its strategic alternatives.

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Next Steps

- Financing
- Consider timing of putting the \$744 MM of CP conduit outstandings to backstop banks Obtain SEC filing response
 - Full legal review of existing transactions
 Determine new clearing limits
- Strategic
- Boards of the two merging companies expected to approve this transaction as early as Wednesday, November 7 or Thursday, November 8.

 - Upon filing of HSR (expected as early as November 7 8), Euron will receive \$1.5 billion in exchange for shares of Preferred Stock in Northern Natural (exchangeable into shares of Euron Common). Citigroup will deliver its fairness opinion with regard to the merger on November 7.
 - This should substantially enhance Enron's short-term liquidity.
- The announcement of the merger should have a strong positive impact in re-establishing market's confidence in Euron.

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Overview of Enron

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Overview of Enron's Business Segments

Segments	% of 2000 EBIT		% of EBIT
Marketing and Trading	95.1%	٠	Offers commodity sales and service, risk management products and financial services to wholesale customers
		•	Develops, acquires and operates power plants, natural gas pipelines and other energy-related assets
		•	Operates in developed markets such as North America and Europe, as well as newly deregulating or developing markets including Japan, Australia, South America and India
Transportation and Distribution	17.2	٠	Operates domestic interstate natural gas pipelines, including Northern Natural Gas, Transwestern Pipeline and Florida Gas Transmission (50% owned); also owns 70% interest in Northern Border Partners, L.P.
		•	Provides electric utility operations in the state of Oregon through Portland General Electric, serving approximately 725,000 customers
		• .	Purchases, gathers, transports, trades, stores and resells crude oil and refined petroleum products through EOTT Energy Partners, L.P.
Retail Energy Services	5.9	٠	Provides energy outsourcing products and services to business customers
Broadband Services	(18.2)	•	Provides bandwidth management, intermediation services and high quality content delivery services
		•	Owns or has contractual access to approximately 18,000 miles of a fiber optic

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Historical and Projected EBIT by Segment

Wholesale Services has grown at a CAGR of 45.7% from 1998 to 2001 and continues to represent the majority of Enron's EBIT.

\$ 637.0 \$ 686.0 \$ 722.0 \$ 540.5 \$ 637.0 \$ 686.0 \$ 722.0 \$ 540.5 \$ 68.0 \$ 722.0 \$ 540.5 \$ 31.1% \$ 68.0 \$ 137.0 \$ 28.5% \$ 31.1% \$ 66.0 \$ 91.1% \$ 172.2% \$ 7.75% \$ 66.0% \$ 11.0.2% \$ 60.0 \$ 60.0 \$ 60.0 \$ 61.0 \$ 61.0 \$ 61.2% \$ 1.36.0 \$ 1.30.6 \$ 61.1% \$ 1.46.2 \$ 1.40.4
\$ 637.0 \$ 685.0 \$ 732.0 \$ 40.3% \$ 65.0% \$ 732.0 \$ 66.0% \$ 712.0 \$ 66.0% \$ 711.0 \$ 22.6% \$ 711.0 \$ 22.6% \$ 711.0 \$ 22.6% \$ 711.0 \$ 22.6% \$ 2.482.0 \$ 1.582.0
1998 1999 \$ 0370 \$ 6850 \$ 40.3% 24.3% 668.0 1.317.0 (119.00) (68.00) -7.5% 3.4% 6.1% 3.1% \$ 1,882.0 \$ 1,985.0 \$
\$ 637.0 \$ 40.3% \$68.0 \$1.2% \$1.2% \$1.2% \$1.2% \$1.2% \$1.2% \$1.5% \$1.5% \$1.5% \$1.5%\$

ron. Estimate for 2001 is annualized performance of the first three quarters.

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Financial Assessment

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Enron's Projected Asset Sales

Projected 4th quarter Asset Sales are reasonably certain

	٠,٠.	Expected	
40 Asset Sales:		Closing	
CEC/CFGRO - 11/13	\$247	Nov 101	See of Brazil distribution company under contract with Petrobras
EGEPhidia - 2001	333	2001	Sake agreement signed with British Cas. Relant must war right to remove operator or change of control.
Ecoelectrica - 11/20	248	Nov '01	Erron selling its interest to Mirant; Some outstanding issues
Axurix North America	135	2001	bank content is fequived, now ever cash will be restricted. Azurix due to high yield covenants.
Total (included in 40 01)	\$962	`	
Asset Sales Brron Projected in 2002		:	
(SMRs)			
Portland General Electric	\$1,500	2002	Enron's wholly owned electric substitlary, in Oregon; Contra signed with Northwest Netwal Gas
Enron Wind Corp	200		Manufacturer and developer of ward power, providing pow- plant design and engineering. Company has attempted to se
SK Enron	220		Korean gas distribution company and LPG importer/marketes
Gespart	205		A wholly ow ned subsidiary of Enron, Gaspart ow na interes seven Brazilian LDCs
Merchant Portfolio	350		includes various other assets
Other ht1	325		Includes assets in Foland, Assa, Iransiedes, Laide and vark other assets
Total	\$2,800		

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Pro Forma Credit Ratio Analysis

Adding all of Enron's Off Balance Sheet Debt (\$16 B), the company's debt/cap ratio is expected to rise to 69% at 12/31/01.

Potential equity write downs of \$5 B could raise Enron's projected debt/cap to 79% by year-end.

	Pro Porma Balance Sheet 9/30/2001	Obligations 12/31/2001	Plus Non Recourse Debt 12/31/2001
Total Debt	\$12,927	\$29.036	\$39.841
Total Book Equity (includes Preferred & Minority Interest)	12.769	12 789	12,280
Total Book Equity (with model? \$5.0 S acreity to readow a)	100	104,	
firmous funks a sea	90,77	7.08	7.769
Debt / Capitalization	50.3%	68.4%	75.7%
Debt / Capitalization (with addf1 \$5.0 B equity writedown)	62.4%	78.8%	83.6%
Debt / EBITCA (x)	3.92x	. 8.60x	12.07x

Credit Ratios	Estimated			
(\$MM)	2001	2000	1999	199
5	\$3,300	\$3,337	\$2,865	\$2,40
2	(836)	1.230	407	5
Total Balance Sheet Debt	12.927	10,229	A 152	7 36
Total Equity After the \$2.2 B writedown in 30011	0070			
Total Act Coulds (Sockades add) 65 0 Burning			0/6/	5
THE TOTAL THINK I WANTED AND A D. O. D. W. HIGHDOW HIS	4,489	4,499	4,490	4,496
Total Balance Sheet Deb/Capitalization (%)	50.3%	44.5%	43,3%	47.89
Total Debt / EBITDA (x)	3.82x	3.07×	2.85x	3.05
EBITDA / interest (x)	3.85x	2.83x	3.18x	3.17x
EBITON - Capex / Interest (x)	1.73x	1.14x	0.77×	080

(1) Structured Debt includes Osprey (\$2.6 B), Marlin (\$915 MM) & Otler Outstanding Structured Debt (approx. \$1.0 B), such as VPPs, Contract Monetizations, and Synthetic Leases

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Financing Terms & Conditions*

pendix for Full Credit Memo

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Transwestern Financing

Borrowers:	Transwestern Pipeline Company ("TW")	
Ratings:	BBB/Baa2 (Senior unsecured)	
Amount:	. \$550.0 MM	
Upsize Option*:	\$650.0 MM	
Citi Commitment:	\$330.0 MM	
New Money:	\$192.5 MM	
Assumption of Prepay:	1 \$137.5 MM	
Guarantor:	Enron Corp.	
Tem:	364 days	٠.
Collateral:	Pledge of stock of TW	
	 Lien on all assets (subject to agreed exceptions) 	
	Pledge of unsecured intercompany note from Enron	
Undrawn Pricing:	sdq 09	
Drawn Pricing:	LIBOR+250 bps or Base Rate+150 bps	
Key Borrower Covenants:	 Minimum Tangible Net Worth of \$750 MM (actual 9/30/01: \$1,034 MM) 	
	 Prohibition of additional debt (subject to agreed exceptions) 	
	Limitation on liens and asset sales	
	Prohibition on intercompany advances when (i) a default has occurred	
	at either the Borrower or Guarantor, (II) the Sum of Borrower s cash	
	and availability under the radiily is less than \$10 miles (m)	
	Guarantor is no longer investment grade.	
Mandatory prepayment:	Required by an amount equal to het dans procedus from days const.	
	equity issuances of capital manage according at TW	
Events of Default:	Failure to pay principal or interest when due (5-day grace period)	
	 Failure to comply with covenants (5-day grace period) 	
	 Cross default to Debt of Borrower greater than \$10 MM 	
	 Event of Default under Enron's \$1.75 B 364-day revolver or Enron's 	
	\$1.25 B multi-year revolver	
	Bankruptcy or insolvency or Enron	
•	Enron ceases to own 100% of Borrower	
	 Failure to create a valid and perfected security interest in constend 	
	(subject to agreed exceptions)	

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Northern Natural Financing

	BBB/Baa2 (Senior unsecured)
Amount:	\$450.0 MM
Upsize Option*:	\$550.0 MM
Citi Commitment:	\$270.0 MM
New Money:	\$157.5 MM
Assumption of Prepay:	\$112.5 MM
Guarantor:	Enron Corp.
Term:	364 days
Collateral:	Pledge of stock of NNG
	 Lien on all assets (subject to agreed exceptions)
	 Pledge of unsecured intercompany note from Enron
Undrawn Pricing:	50 bps
Drawn Pricing:	LIBOR+250 bps or Base Rate+150 bps
Key Borrower Covenants:	 Minimum Tangible Net Worth of \$750 MM (actual 9/30/01: \$1,087MR)
	 Prohibition of additional debt (subject to agreed exceptions)
	Limitation on liens and asset sales
	 Prohibition on intercompany advances when (i) a default has occurre
	at either the Borrower or Guarantor, (ii) the sum of Borrower's cash
	and availability under the Facility is less than \$30 MM, of (III) When
	Guarantor is no longer investment grade.
Mandatory prepayment:	 Required by an amount equal to net cash proceeds from asset sales
-	equity issuances or capital markets transactions (subject to agreed
	exceptions) at NNG
Events of Default:	 Failure to pay principal or interest when due (5-day grace pendo)
-	 Failure to comply with covenants (5-day grace period)
	 Cross default to Debt of Borrower greater than \$10 MM
	 Event of Default under Enron's \$1.75 B 364-day revolver or Enron's
	\$1.25 B multi-year revolver
	 Bankruptcy or insolvency or Enron
	 Enron ceases to own 100% of Borrower
-	Failure to create a valid and perfected security interest in collateral
	(singled to agreed exceptions)

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Pipeline Valuation & Collateral

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Pipeline Description and Financial Summary

Northern Natural	1940s	Texas and Oktahoma to Minnesota,	4.5 Tblu/d (North section); 1.6 Tblu/d (South section)	3.5 Tbtu/d 78% (Seasonality)	986	6/2003	56% (North) 72% (South)	50% (North)	86%	Paid whether or not gas is shipped		\$285AM	\$237MM (\$No further sales of storage gas)	0%; little expansion capex and otherwise stable market	888			STOCKIM	\$150MM	MIMIOCZS.	SSOOMM	\$2.2 – 2.5B; based on DCF analysis; 9x
Transwestern	1959	West Texas to California Border, bi-	directional 1.1 Tbtu/d (East → West); .89 Tbtu/d	(Wes) → East) 1.657 Tbtω/d 83%		2004	89% (West)	80% (West)	90% (East)	Paid whether or not gas is shipped	* 2	\$126MM	SI48MM	7.0%; Growth source is mainly capacity payments arising in connection with projects being completed	888		\$11.5MM				\$11.5MM	\$1.5 - \$1.7B; based on DCF analysis; 10x
DIDELLINE DESCRIPTION		Service date:	Capacity:	2000 throughput:	FERC - Regulated tariffs:	Last major rate case:	% Capacity subscribed	through 2003: % Capacity subscribed	through 2005:	% Kevenues mon capacity reservation changes:	FINANCIAL SUMMARY	2000 EBITDA:	2001 EBITDA (est.):	EBITDA Annual AAR growth rate, 2000- 2005:	Latest senior unsec.	Existing Debt (Maturity/amt.):	2001	2005	2007	2010	Total Existing Debt	Enterprise Valuation

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Proposed Transaction

New Debt Existing Debt Retained	Transwestern \$650 MM \$0	Northern Natural \$550 MM \$500 MM
EBITDA/Interest (2002): EBITDA/Interest (2004):	3.0x 3.3x	3.0x 3.5x
DebvEBITDA (2002): DebvEBITDA (2004):	4.7x 4.4x	4.7x 3.9x
Debt/Firm value:	43%	48%
12/31/01 Pro-Forma Book	49%	20%
leverage: Book leverage at last rate case:	42%	42%

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Credit Issues

Expects \$237 MM capex over 10 years; tegislation not yet enacted; expect recovery through rates; included in	Expects to conduct the proposed tests for about \$36 MM during 20070.00 if bariefaths is enacted as expected expect	Pipeline Safety	
	An Administrative Law Judge recently decided favorably on Transwestem's index-to-index trading, Af risk is a \$10.5 MM tariff payment. FERC will act as an appellate court.		
Sparre	Enron Transportation Services' general coursel has informed us that there is no pending or threatened material (greater than \$300,000) environmental lawsuits or trivestigation.	Pending Litigation	
Sarre	Cash is commingled at Errors with cash front other Errors Desiressor. This is important for Errors are these pipeline companies are an important source of cash. If a feed becomes these series, an appropriate mechanism could be put in place.	Cash Management System	*
Samo	Security interest in accounts receivable and inventory, mortgage on pipeline and the stock. Cross Collateralized.	Collateral	
Similar, except that the age of the pipeline and lack of expansion capital expenditures may attract more FERO excursion, impact might be to impute higher leverage in nea rate case, thus lowering the fauff alightly. Unlikely since debt page down to 44% leverage by and 2004, close to leverage at that iste case.	Pro-forms for this transaction, book leverage will be approximately 50%. Dob in a sist be amentated if needed. To much leverage might persuede FERC to lever lariffs since the cost of debt is less than the target ROE.	Leverage	÷
Samo	Expansion capital expenditures are not usually undertaken unless the new capacity is deemed necessary. Necessity is typically connectated by shippers againing up for firm tensportation service and committing to pay whether or not gas is actually shipped.	FERC Regulation	
Impact of may Alianze pigielre and Voltorian Border expansion have already been felt in northern and eastern portions of the service area. Very large number of gas delivery points an adventage.	Many processis to add capacity to California market but these market but on the signal yearins. San Juan basin and other suppliers will reed to compete using wethered prices. Closest competitor is 100% soil out.	Pipeline Competition:	
Capacity charges account for 85% of revenues. This is a very important mid-Western pipeline that enjoys a strong, market position with many local gas distribution companies.	High Unitization rate, capacity of the grave account for 90% of revenue. Opportunities for contracted expansions coverage arrive sufference to permit a decline in firm strippers at next rate setting.	Stable Predictable EBITDA	
Northern Natural	Transwestern		

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Ways Out

Refinance:	Refinancing entire \$850 MM in bond market would maintain financial ratios within FERC parameters.	Refinal could be market would maintain financial ratios refinanced in the bond market while within FERC parameters.
Sell:	Enterprise value of \$1.5 B is more than twice the \$650 MM of debt.	\$1.05 B of debt vs. enterprise value of \$2.2 B.
Cash flow: Date repayment expected:	sh flow: Date repsyment 2013 if cash swept beginning 1/1/03; 2014 if cash swept beginning 1/1/03; 2014 if cash swept beginning 1/1/03; avnected: 2010 in management projections.	2014 if cash swept beginning 1/1/03; 2011 in management projections.

Collateral Perfection

- Prior to Closing, we intend to file UCC-1's with the Secretary of the State of Delaware (where the pipeline
 companies are incorporated) as well as the Secretary of State of each state through which the pipelines pass.
- Pursuant to the UCC, our security interest will be perfected in all shipper contracts, receivables, inventory, pipe, compressors and other equipment.
- The net book value of pipes, compressors and receivables at NNG is \$800 MM, \$450 MM and \$29 MM respectively at 9/30/01. These same values at TW are \$282 MM, \$495 MM and \$16 MM respectively.
- We plan to deliver the UCC-1's tomorrow (11/5) or Tuesday (11/6) and obtain the signed/stamped UCC-1 by the end of the week November 9.
- We perfect on the value of the Borrowers stock by taking physical possession at Closing.
- With respect to the real property gas storage facilities, easements, rights-of-way, and any parcels of land are more
 problematic.
- Our thought is that the real property with the highest value that we can get to immediately (i.e. within 10 days
 of Closing) are the gas storage fields.
- Enron thinks that the description of real property rights relating to at least a portion of these facilities is available now.
 - Ideally, these liens would be taken and perfected either before Closing or within the 10-day period following.
- Cuosing. In addition, we can be perfected as to all of the real property in some states, such as Texas, either before Closing or within the 10-day period following Closing.

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Citigroup Exposure

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(1) \$33 MM Mark-to-Market; \$129 MM ML/(V (2) Up to \$160 MM Unfunded Coningent Obligations

Existing Citigroup Exposure

Direct Commodity Testing Pype Commit Risk Rating Date Direct Commodity Testing PSR Exposure \$15.200.0(1) 4 up to 3 years Cash Memograment PSR Exposure \$15.200.0(1) 4 up to 3 years Cash Memograment PSP PSR 7.182 4 up to 3 years Cash Memograment PSP PSR 7.182 4 up to 3 years Cash Memograment PSP PSR 7.182 4 0.51/10/2 Syvas PC Enron Corp 18.837 4 0.51/10/2 Gas Prepay Structured Structured 5.22,20 4 0.51/10/2 Yosamina Z Structured Structured 16.137 4 12/11/2 Cash Morelization Structured 16.137 4 12/11/2 Coal Morelization Structured 42.00 2 0.51/10/2 Cash Managraments Structured 42.00 2 0.52/10/2 Tukoben R Structured Structured 50.00 4 0.01/2			Citibank		Maturity
### \$182.000 (1) 4 1.0	Name	Type	Commit	Risk Ratio	
\$16.000 (1) 4- 16.606 7.182 16.633 33.333 4.63333 4.63333 4.63333 4.63333 4.63333 4.63333 4.63333	Direct Corporate Risk				
15666 1566	Commodity Trading	PSR Exposure	\$182,000	4	up to 3 year
7,182	Cash Management	OD Lines	15.606	4	
16.837 16.837 16.837 16.837 16.837 16.933 16.939 16	Foreign Exchange	FXPSR	7.182		07/31/01
## Corporate ## ## ## ## ## ## ## ## ## ## ## ## ##	Letter of Credit Facility	Enron Corp	18,837		05/14/03
## Componence ## ## ## ## ## ## ## ## ## ## ## ## ##	5-year RVC	Enion Corp	33,333	+	05/18/05
1 Comporate \$322,288 4. 1 Comporate \$224,000 4. 37,550 4. 16,137 4. 16,137 4. 12,000 2. 12,000 2. 12,000 2. 13,137,78 9. 13,143 9. 13,143 9. 13,143 9. 13,143 9. 13,143 9. 13,143 9. 13,144 65. 13,144 65. 13,144 65. 13,144 65. 13,144 65. 13,144 65. 15,500 4.	364-day RVC	Enron Corp	65,930	4	05/13/02
\$254.000 4- 37.500 4- 37.500 4- 16.137 4- 16.1		Total Direct Corporate	\$322.888	4	05/13/02
\$72.500 4. \$72.500 4. \$16.137 4. \$16.137 4. \$16.137 4. \$1.137	Structured Corporate Ri	M-Corporate		,	
### ### ### ### ### ### ### ### ### ##	Gas Prepay	Structured	\$254,000	4	12/31/01
15.137	Youemile 1	Structured	37.500	÷	11/18/04
15 15 15 15 15 15 15 15	Yosemile 2	Structured	16.137	÷	01/31/07
Inclined Unsecured \$\$13.796 and \$24.250 2 and \$4.180	Coal Monetization	Structured		+	12/21/01
State Stat		Total Structured Unsecured			
### ### ### ### ### ### ### ### ### ##	Structured Corporate Ri	ak-Asset Supported			
## 2000 2.	Nahanni	Structured	\$24.250	~	07/30/01
6,188 5+1 med 6,188 5+1 med 2,00.000 ++1	Enron Funding	Structured	42,000	ď	03/27/02
10 10 10 10 10 10 10 10	TurboPark B-Notes	Structured	6.188	ŧ	03/31/08
## 20.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.000 + ## 10.0000 + ## 10.00000 + ## 10.000000000000000000000000000000000	TurboPark A-Notes	Structured	66.813	+	03/31/08
1,0000 4 1,0000 4 1,0000 4 1,0000 4 1,0000000 4 1,00000000000000000000000000000000000	JT Holdings	Structured	20.000	+	12/06/01
### ### ### ### ### ### ### ### ### ##	Rawhide	Structured	50.000	4	03/29/02
Course 87.143 9 Course 47.674 9 Course 0.365 6+ The Course Desis 851.532 + to 9 The Course Desis 851.532 + to 9 The Course Desis 851.532 + to 9 S302.000 \$28.000 \$31.174.867 \$1.344.665 4+ \$1.344.667 \$1.344.667 \$1.344.667 \$1.344.667 \$1.344.665 \$1.344.867		Total Structured Secured	\$211.251	2 to 4-	10/00/20
17.143 9 course 47.674 9 course 6.780 5 course 6.780 6 course 6.78	Non Recourse				
0.00189 47.674 9 0.00189 0.759	Dathor	Non-Recourse	\$7,143	ch	03/31/06
6,750 3+ 10,750 3+ 1	Dathof	Non-Recourse	47.674	œ.	03/31/09
Course Desis 0.365 + 10.9 minusise Course Desis 0.365 + 10.9 minusise Course Desis 0.365 0.00 course Desis 0.365 0	Empresa de Generac	Non-Recourse	6.750	,t	09/18/07
### 174 ### 15 #	Elektro	Non-Recourse	0.365	å	10/15/70
### (851.000) ##		Total Non-Recourse Deals	\$61.932	4 to 9	07/31/01
\$302.000 \$302.000 \$1,174.867 1,344.466 15.600 15.600 15.900 18.300 4	Less:	Credit Derivative	(65.000)		12/31/01
\$28,000 \$28,000 \$1,174,867 1,344,466 15,600 4-	TOTAL CARDINA COMBINE	. amandy n	100.440		
\$28.000 \$1.174.867 1,344.466 8 8 16.00 385.300 4	Traveler's		\$302,000		
\$34 000 \$1,174.887 1,344.465 15 600 4 8 395.300	Equity investments		٠		
1,344	Sundance (2)		\$28,000		up to 4 years
DOL 1,344 OD Lines 1,344	Total Existing Citigroup	Exposure	\$1,174.867		
Limit	Clearing Limit	DOL OD Lines	1,344 465	44	
	Settlement Limit		385,300	4	

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\$250 MM, plus \$4 MM PSR

Gas Prepay Size: Discussion:

Asix-month gas prepay transaction terminating December 2001 that created a price risk management liability on Asix-month gas prepay transaction transaction documented under ISDA's backed by an Enron Corp. guarantee. The fixed leg was prepaid to Enron via the third party, and repayment to Citi is both directly from Enron via the fixed leg and indirectly from Enron through the third party via the fixed leg and indirectly from Enron through the third party via the floating leg.

Size. \$38 MM (Yosemite 1)
\$18 MM (Yosemite 1)
\$2.
\$2.
\$2.
\$3.
\$3.
\$3.
\$4.0 MM (Yosemite 1)
\$4

Coal Monetization Size: \$6 MM Discussion: Represer

Represents our hold in a \$123MM remaining balance of an original \$150MM monetization of the minimum required Represents our hold in a \$123MM remaining balance of an original \$150MM monetization of the minimum required payments under a royalty stream related to a coal lease assignment between Reliant Energy HL&P: a division of payments under a royalty stream related to a coal leave subsidiary of Ernon. The transaction is Feliant Energy, and Destec Properties Linited Partnership (*DPLP*), a subsidiary of Ernon. The transaction is funded via Citibank CP conduit; the liquidity backstop rolls every 364-days, and the financing terminates in 2012. Citi can elect to put the funding to the banks whenever it chooses. Ernon rovers the cost of carry (interest, fees etc.) in the monetization through an exchange payment mechanism. From a risk perspective, the facility is comprised of the HL&P risk, which is approximately \$90 MM, and the Enron risk of approximately \$33 MM. GRB – Global Power carries an \$18 MM exposure representing the HL&P portion held by Citibank in this transaction.

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Presently unused, represents the GRB OSUC attributable to a \$485 MM minority interest financing that also permits re-characterization of cash flow to reduce votatility of operating cash flow (at the expense of increasing volatility in cash flow from financing activities). Terminates December 2004. Structurally, Cibitank is in the same position as a lender to Enron, however our position is much improved because we are secured by treasury securities (or cash proceeds therefrom). The structural elements (bankruptcy remote, thirt)—party custodian, etc.) insulate Cititank as a figuidity provider from the bankruptcy of Enron. Events of default/itermination include 1) \$100 MM cross-acceleration, 2) Enron bankruptcy, 3) Enron ratings of BBB- and Baa3, and 4) \$100 MM judgement. Enron is presently considering canceling this facility.

Enron Funding Size: \$42 MM Discussion: Backstops

Backstos an insurance wrapped \$500 MM A1P1 CP conduit that was put in place in order to diversity Enror's funding sources by trainsferring the credit risk of the surety provider. It is renewed annually with the next renewal date in March 2002. If the facility is drawn and Enron cannot repay, our repayment source is the insurance provider (minimal rating of 2002. If the facility is drawn and Enron cannot repay, our repayment source is the insurance provider (minimal rating of 2002. If the present insurer is Vintenthur International insurance Co., Lid (AAA-Aa3.) Vinterthur can assign with consent of lenders to another AA- surety. Enron guarantees the obligations of EFC, and the guarantee contains standard Enron infrancial coverants (max debt/cap of 65%). Although a breach of the Garanthy Any outstanding CP must be refinanced by the facility. Any payment default by EFC or Enron (under its guarantee) is reinhoursed by the insurance company within 7 business days after demand. In the event of Enron hankruptor, we are required to refinance outstanding CP; however, Enron is required to rep and warrant that the insurance policy is still available to fully repay the revolver outstanding. The surety can the must be event of Enron bankruptor, we are required to refinance woo frour rating agencies (S&P. Moody's, Duff & Phelps, Filch) or (b) at any rollover date (36-4ay period). If the credit wasp is lemminated or not renewed, then any outstanding CP would be covered for a 90-day period and EFC would be prohibited from issuing any additional CP. Tenor of CP is limited to 90 days.

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Turbo Park Size:

Discussion:

\$69 MM (A-Notes)
\$ 6 MM (B-Notes)
\$ 6 MM (B-Notes)
\$ 6 MM (B-Notes)
\$ 6 MM (B-Notes)

Represents our portion of a \$600 MM off-sheet financing of all costs incurred in the acquisition, ownership, development, construction, operation and maintenance of gas-fired power projects in the US. Commonly known as a turbine warehouse facility, the structure preserves synthetic lease accounting treatment for power plants throughout their life in the structure family, the structure preserves synthetic lease accounting treatment for power plants throughout their life in the structure final maturity of March 2008, although likely to terminate March 2004. Only \$2.5 MM and \$0.2 MM are presently under the A-Notes and B-Notes, respectively. Usage is low because Enror's strategy since closing has changed such that they now typically develop power peaker projects to the point that they are ready to be built, and then seal them. The facility is available to be drawn only for the purposes noted above; it is not available for general corporate purposes. Errorn guarantees the obligations of its subsidiaries, in the event of guarantor default (covenants and defaults consistent with corporate revolves); recourse under both tranches is to both Erron and the underlying collateral. In this event of collateral, which presently consists of plants in development, 25% to 50% of the value is presently estimated to be hard assets.

JT Holdings Size: Size:

Represents our portion of \$59.2 MM of A-Notes under a \$74 MM synthetic lease of a methanol plant located in Pasadena, Texas. The methanol plant is the remaining asset in this original \$740 MM facility (the others have been sold). The A-Notes are recourse to Enror, but can share pari passu with the B-Notes in a collateral itjuudiation if Enror is debt rating is BB- or Ba3. It Enrors stating is BB- or Ba3 or lower, then the A-Notes will not share in the collateral proceeds. The final maturity is December 2008. Tiggers include base payment default, insolvency of Enron, and events of default consistent with Enror's core five-year revolver. The A-Notes are presently funded by a Citlaan KCP conduit. Cit can elect to put the funding to the banks whenever it chooses. Although we don't have recent value estimates, the methanol market is presently well over-supplied, with accompanying depressed prices. We estimate the value to be 25% to 50% of the loan amount.

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Rawhide Size: Siscussion: C

549 MM

Our portion of a \$690 MM minority interest financing, terminating March 2003. The assets are a portfolio of equity and debt investments in energy and power projects located in OECD and non-DECD countries. Although fully recourse to debt investments in energy and power projects located in OECD and non-DECD countries. Although fully recourse to Ernor via demand loans, the facility is also supported by the assets in the pool, with an estimated value by Ernon of \$968 MM, or loan/value coverage of 1.4x excluding the Ernor demand loans that we do not have a fulfid party assessment of the asset value. Appendix A outlines the largest holdings within Rawhide. Upon either 1) a downgrade by S&P or Moody's to a level of BBB. or Ba1, respectively, or 2) Ernors inability to meet drawing conditions precedent under its primary corporate revolver, there is a required mandatoly repayment of the demand loans into a debt service reserve account. There is also a cross payment default of \$50 MM and a cross default upon Ernor bankcupby. We note that this facility is presently funded by CP sold by a Culbrank conduit. Crit can elect to put the funding to the banks whenever if chooses. This action may be advisable in the event of imminent bankcupby. LJMII is an equity holder in Rawhide.

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Erron owns 50% of this partnership with third party investors making investments in energy companies in the US and Canada. Enron estimates the FMV to be \$153 MM. JEDI I returned cash flow to Enron of \$171 MM and \$154 MM in 2001 and 2000, respectively.	CIESA is 49% owned by Enron; CIESA owns 70% of Transportadora de Gas del Sur S.A. ("TGS"), a publicly traded gas transmission company in Argentina. TGS is the largest gas transportation company in Argentina, and connects the southern production basins to the city of Bouros Arines. It to perates a "t, Ort-nile plateline system that has a capacity of approximately 1.9 Bof per day and primarily serves four distribution companies in the greater Buenos Aires area under long-term, firm transportation confracts. Enron presently estimates its interest in CIESA to be worth \$170.6 MM. CIESA provided cash flow to Enron of \$30.8 MM over the last four quarters, in the form of dividends and a management fee.	An interest in the municipal gas LDC for the municipality of Rio de Janeiro. CEG serves more than 590,000 residential and 5,000 industrial and commercial customers with a 2,200 kilometer pipeline network in Rio de Janeiro. Enron presently estimates the FMV to be \$196 MM. CEG is not presently upstreaming cash flow to Enron.	Through Gaspart, Enron has a 41.5% interest in the gas LDCs of seven Brazilian coastal states. Enron estimates the FMV to be \$149 MM. Gaspart is not presently upstreaming cash flow to Enron.	An Enron subsidiary holds an 11.8% interest in Northern Border Partners L. P., a publicly traded partnership (NYSE: NBP). NBP owns a 70% general partner interest in Northern Border Pipeline Company, which owns and manages a 1.214-mile regulated natural gas pipeline system that extends from the Canadian border in Montana to littinos. The pipeline has a peak capacity of 2.4 Bc/fd and is fully contracted under long term agreements with an avg. term of six years. Enron estimates its interest to be worth \$91 MM. Northern Border returned \$7.5 MM of dividends to Enron over the last four quarters.
JEDII	CIESA	CEG	Gaspart	A A

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Trading Operations

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Trading Operations Assessment

Project Scope

 Project focused on North America Gas and Power business (>90% revenues and risk), although many other product lines exist including coal, oil, metals, pulp and paper, weather, broadband and credit trading.

Summary

- Management is unseasoned and dominated by a trading culture
- Revenues have been very strong due to strong trading revenues in markets with unparalleled volatility
- Relative to strong revenue results, Market Risk levels would be viewed as "moderately high" for much of the year
 as measured by VAR.
- Even after collateral posted, receivables (MTM exposure) total \$14 B, with \$5 B in non-investment grade credits
- No defined methodology exists for calculating and booking non-credit reserves, and this has led to large swings in reserves, which can lessen the transparency of earnings.

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Trading Operations Assessment

Management and Personnel

- Management: For a large company that is central to the energy trading markets, Corporate and Financial Management is unscasoned and dominated by a trading culture:
 - High Volatility of Daily Revenues
- "Disconnected" Trading Vs. Corporate Capabilities
- Excellent technology for monitoring market risk yet...
 - Poor liquidity management
- Capital not specifically allocated to businesses
 - Funding costs not pushed down to businesses
 - > Easily manipulated reserves
- Personnel: Although they have a loyal, motivated, successful team, there is significant risk of instability post-
 - January, when bonuses are paid.
- The top 75 traders were put under 2-year contracts (with non-compete clauses) earlier this year. This would
 not be a stabilizing factor as 50% of the guarantee is in stock and markedly higher-strike options. Two weeks ago the top 25 traders were guaranteed minimum bonuses, in cash, of 50% of year 2000 bonuses.

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Trading Operations Assessment

Revenues: Enron's revenues in 2001 have been very strong due to:

- Strong trading revenues in markets with unparalleled volatility. They believe that superior information, given their pervasive market presence, leads to large position taking advantages. Trading opportunities will likely be much Jess prevalent in more stable markets.
- Enron-on-line (EOL) allows Euron to capture n dominant market share and "move the market." It is unique, with no competitor in sight and provides the market with huge liquidity and transparency. Euron is essentially the energy market's OTC "exchange and clearinghouse."
 - Highly profitable, chunky, structuring transactions with clients leveraging Enron's modeling expertise and appetite for risk.

% of Total	33%	15%	25%	100%
Gross Margins (1)	\$1.4 B (2)	\$0.6 B (3)	\$2.2 B	\$4.2 B
2001 YTD 3Q	Structuring	Market Making (incl. EOL)	Proprietary	Total

- (1) Gross margins are NOT net of interest charges.(2) \$600 MM was related to a single set of transactions involving the sale of power plants.(3) The split between market making and proprietary is estimated based on RAC data.
- markets as newly deregulating markets emerge (such as broadband) has not paid off. They are now refocusing on ◆ The Gas and Power departments represent virtually all of the revenues. The overall strategy of developing liquid core franchises.
- Both the market making and structuring revenues could be severely impacted by further downgrades. They could not survive as an ongoing concern below investment grade due to their "exchange" status. As for recent developments, trading volumes have remained strong, however some counterparties have cut off trading and others have continued trading (temporarily) only because Enron has paid out cash to reduce credit exposure. •

Trading Operations Assessment

Market Risk

- Relative to strong revenue results in 2001, risk levels would be viewed as "moderately high" for much of the year as measured by VAR.
- Enron views their risk-taking as a core franchise based on their market share and integration of trading books across
 different energy markets. An appetite for risk combined with energy markets that have been highly volatile (natural
 gas prices exploded from \$2 to \$10 late last year; California natural gas prices widened to nearly \$50 above other
 regions) continues to result in very volatile daily P/L swings.
- The VAR 95% has been cut 50% (from \$100 MM to \$50 MM) over the past two weeks in response to their funding crisis. (Meaning: 1 out of every 20 days will result in a \$50 MM or more loss). Since October 15, losses from position marks due mainly to outright market exposures total \$315 MM, with 5 days having losses of \$50 MM or more. During the past week, however, losses have been contained as risks have been reduced with minimal market impact.
- The Board cut the VAR limit from \$150 MM to \$85 MM.

+ However:

- VAR is understated (options vega risk is not captured; commodity markets are characterized by stability for long periods followed by instability making VAR a suspect measure; and the risk in longer dated trades may be understated).
- Risk appetite will likely return to pre-crisis levels if the funding situation stabilizes. They believe that it is
 appropriate to manage at risk levels that are twice the year 2000 VAR given the higher liquidity of the markets
 (provided by themselves).
- Although half of the risk is in outright positions, which can be liquidated in a few days, some basis risks are long
 dated (out to 30 years) and could not be liquidated. In the Gas business positions beyond 2004 represent about
 15% of the risk. Long dated exposures are higher in the Power business due to one, large, "price unverified"
- Historical simulations and stress scenarios indicate about a \$600 MM stress loss potential at today's level of risk.
- Historical swings in revenues due to volatile market movements have been as high as \$2 billion (over a one-month
 period during the California energy crisis late last year). A minimum capital requirement to support the trading
 business would be a multiple of this number.

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Trading Operations Assessment

Credit Risk

- Even after collateral posted, receivables (MTM exposure) total \$14 B, with \$5 B in non-investment grade credits.
 The tenor concentration in non-investment grade credits is 2-5 years (approximately two-thirds).
- Credit reserves total \$939 MM, of which \$309 MM is a specific reserve against PG&E and Southern California
 Edison. The remainder are model-based credit reserves against the portfolio and represent 12% of non-investment
 grade exposures.
- Largest investment grade receivables:

	Net Exposure	\$1,600 MM	\$369 MM	\$265 MM	\$261 MM		Net Exposure	\$ 57 MM	\$180 MM	\$ 68 MM	\$12 MM
Enron	Rating	4	2	4	4	Enron	Rating	10	7	φ	9
	Moody's/S&P	Baa3/8BB+	non	none/BBB+	Baa2/BBB		Moody's/S&P	none	Ba2/BB	none	Baa3/BB+
	Counterparty	UXT	Bonneville Power	TransAlta Utilities	Nevada Power	argest non-investment grade receivables:	Counterparty	New Power	EOTT	Constellation Power	Calpine

Enron is rated BBB/Baa2 by both S&P and Moody's, respectively, with negative outlooks.

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Trading Operations Assessment

Marks & Reserves

- Marks: Trades are marked at mid-market with no bid-offer adjustment. The 73% of transactions that go through
 EOL are transparent. In addition, settling daily MTMs with counterparties also provides a measure of price
 verification. However, the Risk Assessment and Control (RAC) group does not independently verify long dated
 trades. This is exacerbated by Enron essentially setting the price for the market given their large market share.
- Reserves: No defined methodology exists for calculating and booking non-credit reserves, and this has led to large swings in reserves, which can lessen the transparency of earnings. ٠

							Quarterly	Revenue Impact	\$ 0 MM	\$ <249> MM	\$ <510> MM	\$ <481> MM	\$ 1 MM	\$ 163 MM
Size	None	None	\$1.2 B (1)	\$0.6 B	\$1.8 B		Reserves	Balance	115 MM	363 MM	873 MM	1,354 MM	1,353 MM	1,171 MM
			-			e against PG&E claim.			63	•	69	4	•	
Reserve Types	Bid/Offer	Liquidity	Prudency	Credit		(1) Includes \$309 MM credit reserve against PG&E claim.		Date	June 2000	September 2000	December 2000	March 2001	June 2001	September 2001

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Trading Operations Assessment controls

- Basic controls around the core trading business appear adequate (based solely on verbal discussions of the process). The EOL process is fully automated from trade entry through settlements. Intercompany transactions are reconciled and there are minimal suspense balances.
- However, we were unable to determine whether gains or losses from the trading books are being shifted to other entities (SPVs) based on the information evaluated. ٠

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Counterparty Credit Issues

Exposure Profile

Euron has approximately 15,000 trading counterparties (2000 MTM agreements) that execute on average 7,000
transactions daily. Euron's net credit exposure totals \$14B. Of this amount 35% (\$5B) are exposures to non-investment
grade counterparties. The top twenty-five net exposures total \$4.4B of which the top four are listed below. (See attached
schedule B for a full listing). These are as follows:

Counterparty TXU Europe Energy Trading	A 4	Gross Exposure \$1,650 MM	Collateral N/A N/A	Net Exposure \$1,650 MM \$369 MM
Authority	٠,	COES MAN	¥ Z	\$265 MM
Corp.	1 4	\$261 MM	NA	\$261 MM

Of the top twenty-five net exposures, four counterparties with net exposures totaling \$430 MM are non-investment grade.
 These are as follows:

		Tenor Exposure	\$1.2 MM (2006)	\$ 31 MM (2011)	\$ 6 MM (2006)	\$ 2 MM (2007-10)
		Tenor Exposure	\$ 61 MM (2002-2003)	\$105 MM (2004)	\$131 MM (2002-2003)	\$165 MM (2002-2003)
	Largest Gross	Net Exposures	\$ 57 MM	\$180 MM	\$ 68 MM	\$124 MM
LICAC CITY OF TOTAL CONTROL OF THE C	Largest Gross	Counterparty	The New Power Company 10	FOTT 7	Constellation Power Source, Inc. 6	Calpine Energy Services L.P. 6

- Euron's top 25 non-investment grade net exposures, which include those counterparties highlighted above total \$1B, of which \$392 MM is collateralized (see attached schedule). A review of these top non-investment grade exposures indicated a concentration primarily in the 2-5 year bucket. Out of this sampling no meaningful exposures were found past 2010.
- Enron has \$438 MM in exposure to counterparties that have filed for bankruptcy. The largest exposure of \$404 MM
 is to PC&E. Individual exposures decline sharply after PG&E, with the second largest exposures being to Perry Gas
 of \$6 MM and Polaroid of \$5.4 MM.
- Credit reserves currently total approximately \$939 MM, of which \$309 MM is a specific reserve against PG&E and
 Southern California Edison (SoCal exposure is \$111 MM). The remainder are general credit reserves taken agains
 the entire portfolio and represent 12% of the net non-investment grade exposures.

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Counterparty Credit Issues

Obligation Profile

- Euron's top 25 obligations (this includes financial and physical MTM as well as prepays) total \$9.1B of which Euron has
 posted \$2.6 B in collateral. Gross obligations to Chase (this includes Mahonia Ltd., the vehicle through which a Chase
 prepay was transacted) and Citi total \$5 B. Citi's portion is \$3 B (only \$250 MM is not hedged by capital markets
 transactions).
- Not all of Enron's counterparties are currently exercising their contractual rights to call for margin. Should all counterparties exercise their contractual rights to call Enron for margin, it would mean an immediate increase of approximately \$200 MM in margin posting requirements. This could happen at any time. Several counterparties had cut off Euron the week of October 29, and then reinstated after the announcement of our commitment. Most counterparties continue trading with Euron, however, in one case, AEP asked for \$50 MM in margin against a \$400MM MTM exposure that Enron was not contractually obligated to provide. Euron sent the \$50 MM and AEP has continued its trading relationship.

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Counterparty Credit Issues

Credit Policies

- Enron has 48 credit professionals in its Credit Risk Management division. Counterparty credit limits are established against current MTM, not potential exposure. At the inception of each relationship, counterparties are risk rated and full credit review is done. A review of the Enron Credit Policy manual shows that policies do not include mandatory review cycles for existing counterparties. Enron's head of credit confirmed that no such policy exists and that renewals of individual credits are done on an as needed basis. Enron risk rates counterparties on a scale of 1-12 and has an approval matrix based upon MTM limit, risk rating, and tenor bucket. (See attached Appendix B & C from Enron's Credit Policy Manual).
- Enron has just instituted the concept of counterparty potential exposure, but it is used only as an informational tool and it has not been incorporated into its approval matrix. Enron has rolled out a potential exposure system based upon an in-house developed PE methodology. Potential exposure calculations, using Monte Carlo simulations, are run at P50, P95, and P99. The assumption is one of no margining, even if it is in place and also simulations, are run at P50, P95, and register based upon potential exposure the calculation would of full tenor risk. In order for credit limits to be established based upon potential exposure the calculation would need to be refined. Written documentation on methodology was provided. The system is very flexible in that exposure buckets can be changed and viewed with any level of specified granularity and is still very much a work in progress. Euron was asked to provide the top 25 potential exposures last week and this week. The information meaningful conclusions.
- The credit reserve calculation is based upon the probability of default calculated using implied spreads on the underlying bonds. An adjustment is made for liquidity and recovery rates. The resulting number is then multiplied against potential exposure. The credit reserves, with the exception of PG&E & SoCal use a portfolio approach done through simulations in the credit system. Reserves are not reduced by collateral, which is a conservative approach. The reserves are calculated monthly. No written documentation on methodology was

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Counterparty Credit Issues

Documentation

- From the list of counterparties with the largest MTM exposures to and from Euron, we selected ten counterparties
 (five from each list) for document review. In particular, our review focused on increases to required collateral
 upon rating downgrade tringers. On a positive note, of the 15 master agreements we reviewed, none included a
 traditional MAC clause, which would have led to uncertainty as to a counterparty's right to demand additional
 collateral from Euron given Enron's lower ratings.
- The agreements are consistent in requiring full collateralization of the MTM exposure by the party rated below BBB- or equivalent. At or above the rating, there are usually reduced requirements: collateral is required only for the MTM exposures above a threshold amount ranging from \$5 to \$20 MM depending on the agreement. Some agreements have a sliding scale with decreasing thresholds as the rating declines while other agreements have only the below BBB- trigger.
- Permitted collateral is typically cash and LCs (and sometimes short-term Treasuries). Crucial from a liquidity perspective are the following limitations on the use of LCs: (a) if the LCs are within 20 business days (sometimes 10 days) of expiration, they have to be replaced or else are accorded zero value for collateralization purposes and (b) some agreements also disqualify LCs if the LC issuing bank has indicated its intent NOT to renew the LC at least 20 business days prior to expiration. Furthermore, as a limitation on cash collateral, a party rated below BBB- is generally NOT allowed to rehypothecate the collateral, i.e. if Enron is rated below BBB- and it has received cash collateral from a counterparty, it is not emitted to send that cash to another counterparty.
- We found one instance where the below BBB- trigger also requires posting an amount additional to actual MTM
 exposure. Below BBB-, Enron would have to post \$5 MM even if exposure is zero.

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Off Balance Sheet Financings

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‡

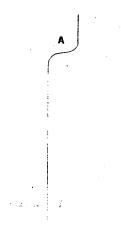
Off Balance Sheet Financings

	9/30/2001
Total S-T/L-T Balance Sheet Debt	\$12,927
Prepays	\$5,115
Structured Debt	4,532
Minority Interest	1,705
Securitization/FAS 140	2,354
Residual Value of Leases	540
Financial Guarantees	1,863
Total Off Balance Sheet (excluding Non-Recourse)	\$16,109
Adjusted Debt for Off Balance Sheet	\$29,036
Debt of Unconsolidated Subsidiaries (Non-Recourse)	\$10,805
A TO THE STATE OF	1

(1) Structured Debt includes Osprey (\$2.6 B), Marlin (\$915 MM) & Other Outstanding Structured Debt (approx. \$1.0 B), such as VPPs, Contract Monetizations, and Synthetic Leases

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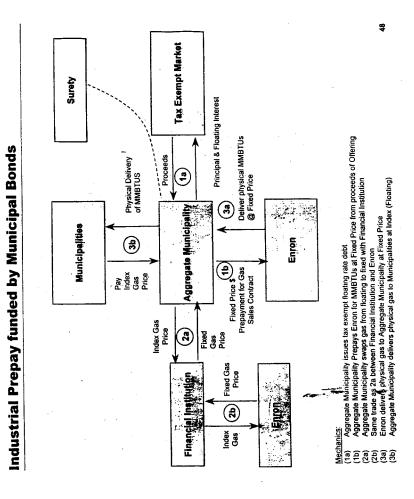
Deals	Type	Arranger	Commodity	as of 9/30/2001
Financial - Capital Markets				
Yosemite	Financial - CLN	SSB	Crude	\$800.0
Yosemite II (GBP)	Financial - CLN	SSB	Crude	305.0
ECLNI	Financial - CLN	SSB	Crude	475.0
ECLN	Financial - CLN	SSB	Crude	475.0
FCI N II (Furo)	Financial - CLN	SSB	Crude	155.0
FCINI(GRP)	Financial - CLN	SSB	Crude	161.0
			•	\$2,371.0
Financial - Bank				
Gas Pre-Pav	Financial - Bank	Citibank	Gas	\$250.0
Coude Pre-Pay	Financial - Bank	CSFB	Crude	165.0
(p. 101100000)				\$415.0
Physical - Bank				
Chase II/TD	Physical - Bank	Chase	Crude	\$150.0
Chase N	Physical - Bank	Chase	Crude	52.0
Chase 3Q	Physical - Bank	Chase	Crude	150.0
/N 60040	Physical - Bank	Chase	Gas	\$15.2
Clase IV	Division Donk	Chae	38	49.2
Chase V	Tilyaical - Dalik	900	3 8	305.7
Chase VIII	Physical - Bank		8	300.
Chase X	Physical - Bank	Chase	cas	4.887
Chase IX	Physical - Bank	Chase	Gas	532.8
Chase 4C's	Physical - Bank	Chase	Gas	\$1,904.3
Industrial				
Chase VII (APEA)//Municipality Industrial	Industrial	APEA/Chase	Gas	\$178.5
North America/Municipality	Industrial	Municipality	Gas	33.5
Energy America/CRA	Industrial		Power	\$424.3
				4
Total Dra-Days				\$5,114.6

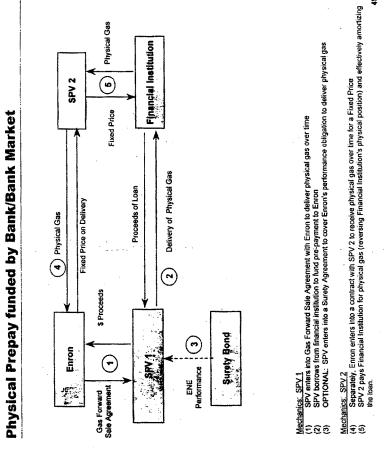
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Overview of Prepays

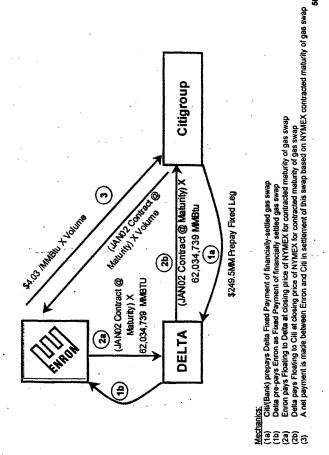
- Prepays are transactions in which Enron has received proceeds at closing and is required to "repay" the
 counterparty either with cash indexed to a commodity or the physical commodity itself.
 - Based on Mark-to-Market Accounting
- Prepays are accounted for in "Price Risk Management Liability"
 - ▶ Included in Funds From Operation ("FFO")
- Three main types
- Industrial Prepays
 - Physical Prepays
- Financial Prepays
- Physically Settled Industrial Prepays ("Industrial Prepays) \$424 MM
 - Funded by Industrial User as ordinary course of business
- Hedge executed by Financial Institution; proceeds raised in the tax-exempt market
- Physical Settled Prepays ("Physical Prepays") \$1,904 MM
 - Funded in Bank Market
- Hedge executed by Financial Institution
- Financial Prepays ("Financial Prepays")
- Funded in Bank Market or Capital Markets
- Land III Daile Market through Credit Linked Notes ("CLNs") \$2,371 MM
 - y Bank \$415 MM
- No Hedge required

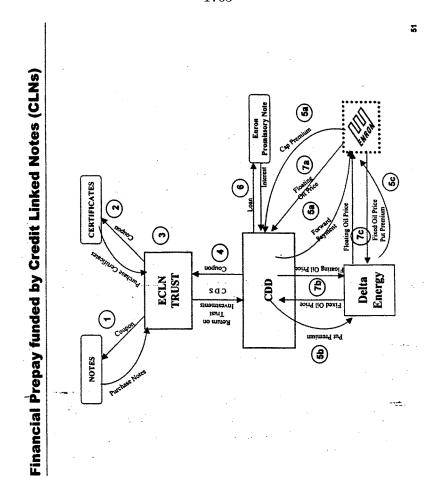
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Financial Prepay funded by Credit Linked Notes (CLNs)

Mechanics:

Issuance of 144A Notes

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- Placement of Certificates (representing tax equity)
- (3) Proceeds of Notes and Certificates used to purchase Trust Investments consisting of Citibank CD
- (4) Credit Derivative Desk (CDD) enters into credit default swap where CDD pays the coupon for notes and certificates and receives the proceeds from Trust Investments (CD). In addition, credit default swap provides CDD with protection on Enron from Trust
- (5a) CDD makes a forward prepayment to Enron for [x] Bbls at a fixed price. At maturity Enron pays [x] Bbls at the then market price. Enron purchases a cap on [x] Bbls at the same fixed price.
- (5b) CDD purchases a put from Delta at same trigger as cap in 5a.
- (5c) Same trade as 5b from Delta to Enron.
- (6) CDD makes loan to Enron with coupon required to cover amounts needed for payment to CLN trust not provided by Pre-Pay.
- (7a) Enron pays floating oil price on [y] Bbls on semi annually basis to CDD.
- (7b) CDD pays Delta same floating payment received from Enron and receives fixed oil price on [y] Bbls.
- (7c) Same trade as 7b from Delta to Enron.

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CITI-SPSI 0033036

hare Trusts

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Share Trust Transactions

Enron has two deconsolidated ventures which include Share Trust supported debt issues

 Marlin: Deconsolidates Azurix Corp and Wessex Water Plc, a provider of water and wastewater services in southwestern England • Osprey: Deconsolidates investments in several international projects and various domestic equity investments

Debt issues supported by Share Trusts

Marlin: \$ 475 MM due July 15, 2003

47.5 min due July 15, 2003 (denominated in Euros)

\$ 915 MM

1,400 MM due January 2003

Osprey:

750 MM due January 2003 287 MM due January 2003 (denominated in Euros)

\$2,437 MM

Total:

\$3,352 MM

 Upon certain trigger events \$3,352 million in proceeds must be generated by the sale of Enron equity including MCPS in the Share Trust with any shortfall being a claim against Enron

• Third party equity have certain rights with respect to asset dispositions

Martin: \$

220 MM \$ 345 MM 3

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Share Trust Transactions

Net asset values supporting both transactions as currently estimated by Enron at:

\$ 219'MM - Share of Azurix Assets	125 MM Overfund Reserve	\$ 344 MM	1,596 MM - Osprey Assets	249 MM Overfund Reserve	\$1,845 MM	\$2.189 MM
Marlin:		,	Osprey:			Total:

Asset value shortfall in covering third party investor and debt

696 MM	\$. 812 MM	\$1.508 MM
Martin:	Osprey:	Total

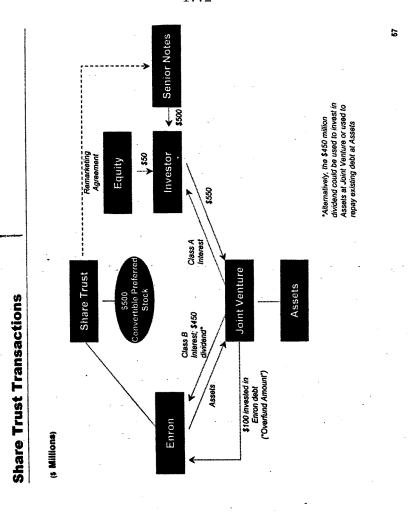
 A Trigger Event requiring the Share Trust trustee to remarket the shares and apply the proceeds against the Senior Notes will occur if Enron is downgraded to below investment grade by <u>either</u> S&P, Moody's or Fitch

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Share Trust Transactions

- Companies deconsolidate assets by selling an interest with at least 50% "control" to third parties
- All balance sheet items related to those assets are replaced with a single line item, Affiliate Investment. Income is recorded under the equity method
- Third-party interests in deconsolidated joint ventures resulting from structured financings often allocate a
 disproportionate share of losses and gains to the Sponsor
- A Share Trust is used to provide support to the debt issued by the third party investor to buy its interest in the joint venture assets
 - Mandatorily Convertible Preferred Stock (MCPS) equal to the debt is issued to a trust
- Following certain events, Remarketing and Share Settlement Agreements require the Sponsor to issue as
 many shares as needed to raise the amount required to repay the debt
- Euron is contractually obligated to pay the difference between the amount raised from the sale of MCPS or other equity and the outstanding debt amount

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CITI-SPSI 0033042

Minority Interest Financings

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Minority Interest Financing

transactions	
structured	
interest	
minority	
s four	
Enron ha	

	1) Agent	_	•			
	Outstanding (9/30/0	\$690 MM	15 M	200 M	200 M	
THOU HAS IOUR HIHIOTHY THEFT OF THEFT THE THEFT	Facility Amount	\$ 690 MM	. 500 MM	. 500 MM	500 MM	CO 100 MM
mon has low mimority a	Name	Rawhide	Nahanni	Zephyrus	Choctow	

Assets supporting the transactions

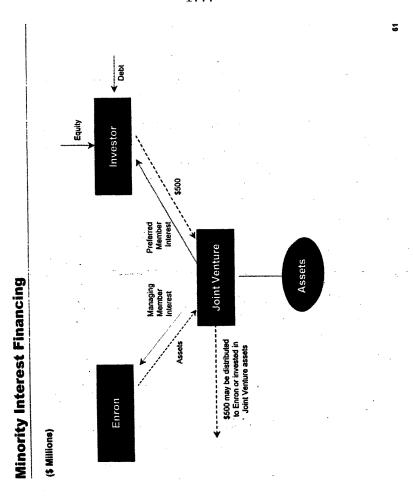
- Rawhide: Minority investment is fully supported by Enron demand notes plus approximately \$1.3 B of various equity and debt investments in Enron affiliates
 - Nahanni: Cash and/or T-Bills equal to minority investment plus additional Enron assets
- Zephyrus: \$1.25 B Enron debt obligations and trade receivables. Trade receivables are limited recourse to Enron
 - Choctow: Enron debt obligations and trade receivables. Trade receivables are limited recourse to Enron
- Triggers All have transaction specific tests regarding cash flow coverage and asset value tests. Also have Enron
 downgrade triggers as follows
- Rawhide: Rating of BBB- or Bal requires cash collateral for minority investment. No specific termination if below Investment Grade
- Nahami: Rating below BBB- and Baa3 is a termination event Zephyrus: Below investment grade is a termination event
 - Choctow: No ratings trigger

CITI-SPSI 0033044

Minority Interest Financing

- Minority interest represents third-party equity of a consolidated subsidiary
- Minority Interest resulting from structured financings often allocate the first loss to the Sponsor
 - In contrast to a pro rata loss sharing in joint venture projects
- Enron has both types of Minority Interest
- Structured financings (\$1,705 MM)
- Joint venture project equity (\$626 MM)
- Assets and income are fully consolidated on Enron's statements
- Capital provided by minority investors is Minority Interest on balance sheet Income attributed to minority investors is Minority Expense

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AS 125/140s Total Return Swaps ("TRS")

CITI-SPSI 0033048

FAS 125/140s Total Return Swaps ("TRS")

FAS 125 deals were revised in 2000 to comply with FAS 140

- FAS 125 and 140 deals have the characteristics of:
 - Sale for GAAP purposes
- Debt for tax purposes
- Off Balance Sheet Financing
- Funds flow or gain recognition
- Merchant assets treated as Proceeds from Merchant Assets
 - Strategic assets treated as Proceeds from Asset Sales
 - Business unit maintains
- Control of the asset
- Maintains P&L risk
- Responsible for ultimate disposition of the asset

Total Return Swap

- > The total return swap exchanges future payments received from the asset being purchased for the quarterly payments equal to periodic interest payments and at maturity, principal.

 - > The TRS provides the lenders assurance of payment similar to an Euron guaranty.

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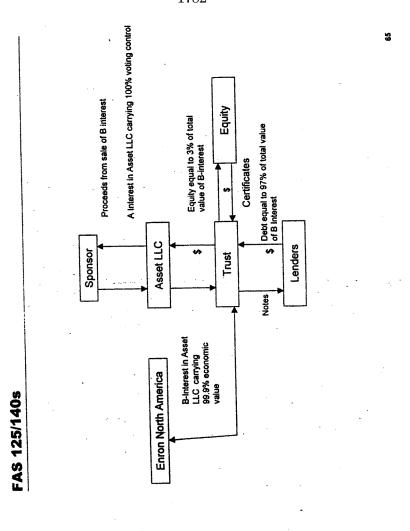
FAS 140s

Voluments 30.1	Deal Name	Transaction Amount (2)	FMV as of 9/30/01	Date	Underlying Asset
30.1 46.7 46.3 51.3 50.0 52.2 115.2 30.0 28.7 115.2 30.0 28.7 148.3	Hawaii Facility				
101 101 102 103 103 103 103 103 103 104 104 104 105 104 105 105 105 105 105 105 105 105	Heneil		e.		
1915 407 168.3 51.3 51.3 51.0 52.2 115.2 50.0 286.7 115.2 30.0 286.7 115.2 30.0 286.7 115.2 30.0 286.7 115.2 30.0 286.7 115.2 247.3	NPW Warrants	30.1		7/19/02	NPW Warrants
168.3 69.4 113.2 20.0 20.0 20.0 20.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 30.0 20.0	NPW/Warrands	91.5		7/19/02	NPW Warrants
168.3 68.4 31.3 20.0 52.2 115.2 30.0 28.7 126.0 28.7 126.0 28.7 126.0 28.7 126.0 28.7 28.2 28.2 29.2 28.2	NPW Werterle	46.7		7/19/02	MPW Warrants
31.3 20.0 22.2 116.2 38.0 38.0 38.0 38.0 28.5 465.0 445	Total Hawaii i	168.3	68.A		
113 113 113 113 113 113 113 113 113 113	Havelill				
115.2 115.2 115.2 30.0 30.0 30.0 128.0 148.3	COAS	31.3		11/20/02	CGAS and E&P Co in OH
115.2 30.0 30.0 38.0 288.7 128.7 128.7 128.3 148.3	Tahih 2	20.0		11/20/02	New Power Note
115.2 30.0 30.0 200.1 200.1 120.0 120.0 143.5 143.	and a	52.2		11/20/02	Margeux Asset is ENE rec.
30.0. 30.0. 30.0. 30.0. 30.0. 30.0. 30.0. 30.0. 148.3. 148.3. 148.3. 2.9. 2.9. 2.9. 2.9. 2.9. 2.9. 2.9. 2	SUBSUB	115.2		11/20/02	Class C Interest in EBSCS
1283.7 1289.7 12	Tabili	30.0		11/20/02	New Power Note
1286.7 1280.8 1284.7 1280.8 1284.7 1280.8 1284.7 1280.8 1284.8 1	EILIN	38.0		11/20/02	DSM contract with Eli Lifty
1	Total Hawaii	286.7	125.0		
10 10 1443 1463 1463 1463 1463 1463 1463 1463	Facility Total	\$ 455.0	184.4		
126 10 128 128 128 128 128 128 128 128 128 128	Other 125/140 Structures			_	•
148.3 148.3	Riverside 6	23	72.6		Teesside Pwr Plant
2.8 2.9 4.9 4.0 4.0 4.0 4.0 4.0 4.0 4.0 4.0 4.0 4.0	Riverside 7 (now Riverside 10)	148.3	148.3		Tessside Pwr Plant
247.5 642.2 651.5 532.7 652.2 651.5 651.6	Riverside 5	5.8	2.9	•	Teesside Pwr Plant
247.3 26.2 26.2 26.2 26.2 26.2 26.2 26.2 26	ETOL 8	43.5		_	Div. Strm of Teesside Utilities
10 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	ETO, M	247.3	262.2		Div. Strm of Teesside Utilities
25 22 8 616 516 516 518 1016 0 1 1,024.3 222.1 239.5 64.5 63 84.5 63 84.5 63 84.5 63 84.5 63 84.5 63 84.5 83 84.5 83 84.5 83	Cerebut(1)	517.5	332.7	6/28/02	EOG Shares
80 80 516 516 5 867.8 \$ 1,024.3 Total Obelia, (3) 64.5 63 50 50 358 358	Sarkos Contis	52	52		"B" Interest (ServiceCo C/Stock)
\$ 967.8 \$ 1,024.3 \$ 1,024.3 \$ 1,024.3 \$ 1,024.3 \$ 1,024.5 \$ 1,024.	Nikita - EOTT	8	8		EOTT Shares
\$ 967.6 \$ 1,024.3 Total Obde. (3) 222.1 239.5 64.5 63 56 50 358 358	Nuclear ElectricCash VI	51.6	516		Pymbs nec. by ECTEF (QSPE)
Total Obeva. (3) 239.5 222.1 239.5 63 63 63 63 63 63 63 63 63 64 65 65 60 60 60 60 60 60 60 60 60 60 60 60 60	Other 125/140 Total	\$ 967.6	1,024.3		
222.1 239.5 • 64.5 63 50 50 358 358	Other Structures with TRS (non 125/140)	Total Oblig. (3)			
. 64.5 63 50 50 358 358	Combusker		239.5	• •	Tenaska IV Power Station
50 50 50 358 358 358 358 358 358 358 358 358 358	Motown	. 64.5	63	3/29/02	Cogen Mi Equity \$11MM
358 358	Backbone II	25	20	6/30/02	Broadband/Fiber Optic
	Shoshovriaostaff	358	358	6/23/06	Stadacona Paper Plant
15.8 15.8	EEX (VPP)	15.8	15.8	2/5/05	Equity in VPP

hedged: Curenty mark all debt associated with this transaction. Any P&L on this TRS will be offset with the mark on debt (effectively any difference however the Asset Petros and Fair Value is made to through his hedge).

Tennection Amount is the total debt and equity contributed to the structure on the initial closing da

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her Structured Transactions

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Other Structures

		3			
Deal Name	Amt.	Amount	Type of Structure	Maturity Date	Underlying Asset
Cash V	139.9	140.0	Contract Monetization	140.0 Contract Monetization A's in 6/02 B's & Certs 2/07 Power Marketing Contract	Power Marketing Contract
Destec	150.0	108.0	Contract Monetization 2/1/2013	2/1/2013	Coal Contract with HL&P
Joshua Tree	171.0	110.4	VPP	12/31/2005	Blind Pool
KSC VPP	149.3	149.3	VPP	12/31/2007	Surety note on VPP
nauguration	475.0	310.2	Synthetic Lease	7/10/02	Turbines
ENEXT/Turbopark	600.0	17.6	Synthetic Lease	12/15/2003	Turbines
SE Acquisition	120.0	120.0	Other	3/27/02	Assets supporting Osprey
Vathalla	50.0	20.0	Other	12/01, 3 year term out	Rhinegold
	\$ 1,855.2	\$ 1,005.5			
man de Malardiga					to de commercia de
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Guarantees, Leases & Non-Recourse Debt

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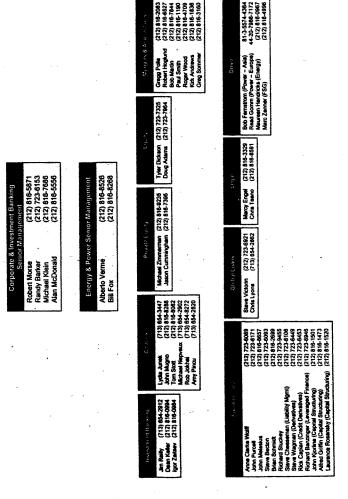
Leases, Guarantees and Non-Recourse Debt

2001 2002 2003 2004	0079
0002 0003 0004	\$123
5003	86
. 900	69
	99
2006	49
December	328
Total Commitment	+978
•	
Guarantees issued to Support Debt of Unconsolidated Subs (\$MM	9
Anancial Guarantees	800 53
Court and the second to confident and the second in the court of the second sec	00°
CONT. Trade	85
Guarantees haved to Support Debt of Unconsolidated Subs.	230
Total Financial Guerantees	\$2,403
Performance Guarantees	
Guarantees Issued to Support Letters of Credit	264
Total	\$2,667
Unconsolidated Obligations	
Designation (See 18.1)	\$1,560
TBG	1,464
NBA.	1,365
Azurix/Messex	1,178
CIESA .	996
Œ	22
EcoElectrica .	652
Gas Transboliviano	481
Accroven	333
	306
тем .	235
Okrus	207
Other	1,228

Appendix I - Citigroup Team

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The Citigroup Team Overview



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Citigroup Teams

Team One Coverage	overage	Team
Jim Really Dear Keller Igor Zaitser Demien Mitchel Michael Diworth Emily Chol Bavid Makule Sebastian Arango	(713) 654-2912 (212) 816-0994 (212) 816-0884 (212) 816-0878 (212) 816-867 (212) 816-867 (212) 816-8624 (212) 816-8624	Rick Stuckey Elena Matrulo Murzy Barnes Kara Edwards Perry Piazza Cliff Verron Jo-Anne William

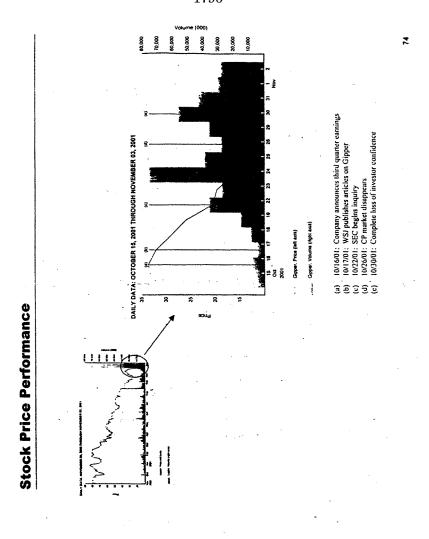
(212) 816-5871 (212) 723-6153 (212) 816-586 (212) 816-5556 (212) 816-0450 (212) 816-0065 (212) 816-2747

		-		
ilio / Cash Flow	(212) 816-8082 (212) 816-5556 (713) 654-3447	(212) 816-8288 (212) 816-6449 (713) 654-2887	(212) 816-0984 (212) 816-8272 (713) 654-2820	(713) 654-2868 (713) 654-2884 (713) 654-2885 (713) 654-2911
Team Four: Liability Portfolio / Cash Flow		×		
Team Four	Tom Stott Rick Capian Lydia Junek	John Mugno Steve Wagman Michael Neoveux	Igor Zaitsev Rob Jokhai Amy Pincu	Shirley Elliott Julie Dry Brendan Mackay Tero Tillikainen

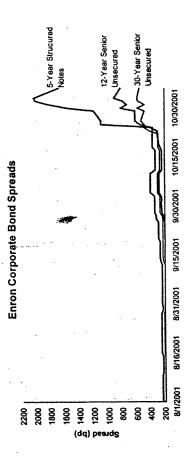
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Appendix II - Financial Market Reaction

CITI-SPSI 0033064







S&P Rating Actions

As a result of Enron's recent difficulties, its credit rating has been lowered from BBB+ to BBB by S&P on November 1, 2001.

- The downgrades indicate Standard & Poor's determination that Enron's plan to employ asset sales and other means to repair its damaged balance sheet will be insufficient to restore its long-term credit quality to the historical BBB+ level
- The negative CreditWatch listing recognizes the uncertainties that surround the company and its credit quality in the short run due to the possibility of further unanticipated developments in the capital markets
- To resolve the Credit Watch listing, S&P will monitor the following factors closely:
- Counterparty attitudes
- Short-term liquidity concerns
- Disclosure standards
- Asset sales and equity infusions
- ◆ Concurrenily, S&P lowered Enron's short-term debt rating to A-3, the lowest short-term grade, from A-2.

CITI-SPSI 0033067

Moody's Action

Moody's downgraded Enron to Baa2 from Baa1 on October 29, 2001.

- Moody's actions were prompted by Enron's deterioration in financial flexibility due to the significant write-downs as well as equity charges in previously undisclosed partnership investments
- The resulting loss in investor confidence has led to a halving of the company's stock and difficulty in rolling over commercial paper facilities
- Moody's analysis of the developing situation will focus on management's success in lining up further liquidity support
 and on their ability to retain credit availability from their major counterparties
- Moody's will also review management's asset sale plans and valuations and timing and risks associated with those transactions
- Additionally, the rating agency will review Enron's off-balance sheet transactions to ascertain the extent to which the
 company will be able to meet any shortfalls with equity or with additional debt
- Moody's placed Enron's P-2 commercial paper rating on review for downgrade on October 29, 2001.

CITI-SPSI 0033068

Fitch's Action

Fitch downgraded Enron to BBB- from BBB on November 5, 2001.

- Fitch's actions reflect the difficulties Enron faces in managing its liquidity position in the face of an erosion in investor confidence.
- The investor reaction follows the recognition of a substantial diminution in value of its global merchant investments, which were partly financed with an aggressive use of off-balance sheet vehicles.
- Fitch believes that Enron should be able to manage though this challenging environment, ultimately recognizing the
 values of the company's core businesses.
- Fitch would consider further downgrades if Enron were unable to make progress in reducing debt, if its wholesale
 marketing and trading business were to show signs of material deterioration, or if expenses and charges related to the
 disposition of non-core businesses and investments exceed present estimations.
- At the same time, Fitch downgraded Enron's commercial paper to F3 from F2.

CITI-SPSI 0033069

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	SALOMONSMIT	HBARN	1

GLOBAL LOANS APPROVAL MEMORANDUM

MEMO DATE: NOVEMBER 7, 2001	APPROVAL DUE DATE: NOVEMBER 9, 2001		
x Bookrunner	Agent-only	Co-Agent	Lender
A. KEY STATISTICS BOITOWER:	A. Transwestern Pipeline Company B. Northern Natural Gas Company	Citibank Commitment (\$MM):	A. \$330MM B. \$270MM Tot \$600MM
Guarantor	A. Enron Corp B. Enron Corp	*Citibank Hold (\$MM):	A. \$330MM B. \$270MM Tot: \$600MM
Deal Size (\$MM):	A. \$550MM (with the ability to upsize to \$650MM) B. \$450 MM (with the ability to upsize to \$550MM)	*U/W Amount (SMM):	N/A
Facilities(MM)/ Type/ Tenor: \$1.000/364-day RC Facilities (with the ability to upsize to \$1.200MM)		*B/E Amount (\$MM):	N/A
		* If non pro-rata, show breakout	. .
Legal Vehicle:	Citibank, NA	•	
Origination Unit:	Houston-GEM	Expected Launch Date:	10/31/01
Control Unit: -	Houston-GEM	Expected Closing date:	11/9/01
Co-Bookrunner(s) / Amount: Co-Administrative Agent / Amt:	SSB /\$600MM JPMorgan/\$400MM Cilibank/\$600MM JPMorgan/\$400MM	Sell Down date: (90 days, unless otherwise appr	N/a roved)
Syndication Agent / Amt:	N/a	e e e	
Paying Agent / Amic	Citibank/\$600MM		
Upfront Fees: \$12M Commitment Fee of 50		50 bps LIBO	Drawn Pricing: R Margin of 250 bps ate margin of 150 bps
Deal Leader: Chris Lyons	Tel: 713-654-2862	Back-up Contact: Michael Neoveux	Tel: 713-654-2887

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LT UNSECURED	RR for Facility	Adverse Classification
RATINGS:	(DRM)	(IA.II, or III)
A. 988/Baa2	4	n/a
B. BBB/Baa2	4 "	n/a
Enron Corp: BBB/Baa2 (neg. outlook)	4	1

assets of the Borrowers including capital stock. Additionally, Enron will refinance the Citibank funded \$250MM prepay due December 27, 2001 as a separate tranche under our \$600 million commitment in the new Facilities.

The Facilities are to be used for working capital and loans to Enron Corp, providing current liquidity, given Enron's current inability to access the capital markets.

Since December of 2000, Enron Corporation ("Enron") has lost approximately \$52.2 billion (or 82%) of its market capitalization. This was aggravated by the departure of Skilling (CEO) in August, and heightened by several recent announcements including several write-downs/asset impairments, SEC review into potential conflict issues with LJM partnership, and replacement of CFO Andy Fastlow. As a result, the rating agencies placed Enron on negative outlook and Enron's bonds traded down. Enron notified us as its agent bank on its Revolving Credit Facility that it would not be able to place its Commercial Paper and would be drawing on its backstop facilities. On 10/25011, Enron drew down 100% of its combined \$3.0 billion 384-day and 5-year backstop facilities in order to repay commercial paper (\$2.2 billion), with the remainder used to preserve liquidity. At that time, Enron's corporate bonds dropped even further to 84%. Given Enron's inability to access the capital markets, Enron requested that its two lead banks (Cribbank and Chase) provide a short term liquidity facility, as a measure to both re-instill market confidence and provide interim liquidity, while Enron tries to re-enter the capital markets

Enron publicly announced the commitment of \$1.0 billion of Facilities on Thursday, 11/1/01. In addition, Enron plans to have senior management follow up with its investors on a "Road Show" later in the week, hoping to re-enter the commercial paper markets.

We believe that the Facility:

- (1) allows Enron to continue to maintain liquidity within its trading operations (and reducing associated margin requirements by counterparties); and
- (2) possibly restores confidence in Enron capital markets and stability in Enron's credit ratings.

APPROVALS:

Approval Level Required: Level 1+

Global Loans:	Origination:	Research:	Risk Manager:	Loan investor	Credit Admin:
Chris Lyons	Michael Nepveux	Shirtey Elliott	Tom Stott	Services: Sean Portrait	Carol Rooney
713-654-2862	713-654-2887	713-654-2868	212-816-8082	302-894-6083	212-654-3590

SUMMARY

EXPOSURE SUMMARY

(in \$ millions)

2	/			
	Facility Description	Current	Proposed	Change
	\$600MM Secured R/C Facility	\$0	\$600	\$600

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Total		30	\$600	\$600
Tinancial Covenani		or Transweste 1. Prohibitor 2. Limitation 3. Minimum 4. Prohibition • Defa Guai • The Facil • Whe	nn and Northe n of additional de on liens and ass Tangible Net Wo n on intercompar ult has occurred antor sum of Borrower ity is less than \$* n Guarantor or the	bit et sales with of \$750MM by advances when at either the Borrower or see that the sale of the sale o
	•	inve	stment grade.	
Law Firm:				Bracewell & Patterson Bill Hayes and Robin Miles Ph: 713-221-1319 Fax: 713-221-2120
CPC Documentation	on Exceptions:			N/a
C. SYNDICATH	ON STRATEGY			
	* · . * *		*	· · · · · · ·
1. Transaction	Summary			
Borrowers:	Northern Natural Gas Pipeline Comp.	any ("NNG")	Transwestern	Pipeline Company ("TW")
Ratings:	88B/Baa2 (Senior unsecured)	, (,		enior unsecured)
Amount:	\$450MM		\$550MM	
Upsize Option*:	\$550MM		\$650MM	
Citi Commitment:	\$270MM		\$330MM	
Refinance Prepaid:	\$112.5MM		\$137.5MM	
Guarantor:	Enron Corp.		Enron Corp.	
Term:	364 days		364 days	
Collateral:	Pledge of stock of NNG Lien on all assets (subject to agexceptions) Pledge of unsecured intercomp		Lien on a exception	of stock of TW all assets (subject to agreed ns) of unsecured intercompany note from
Undrawn Pricing:	50 bps		50 bps	
Drawn Pricing:	LIBOR+250 bps or Base Rate+150 l	ops ·	LIBOR+250 I	ops or Base Rate+150 bps
	.*			

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Key Borro Covenants:

- Minimum Tangible Net Worth of \$750MM (actual at 9/30/01; \$1,087MM)
- Prohibition of additional debt (subject to agreed exceptions)
- Limitation on liens and asset sales
- Prohibition on intercompany advances when (i) a default has occurred at either the Borrower or Guarantor, (ii) the sum of Borrower's cash and availability under the Facility is less than \$30MM, or (iii) when Guarantor or the Borrower is no longer investment grade.

Mandatory prepayment:

Required by an amount equal to net cash proceeds from asset sales, equity issuances or capital markets transactions (subject to agreed exceptions) at NNG

Events of Default:

- Failure to pay principal or interest when due (5day grace period)
- Failure to comply with covenants (5-day grace) period)
- Cross default to Debt of Borrower greater than \$10MM
- Event of Default under Enron's \$1.75 billion 364-day revolver or Enron's \$1.25 billion multiyear revolver Bankruptcy or insolvency of Enron
- Enron ceases to own-directly or indirectly 100% . of Borrower
- · Failure to create a valid and perfected security · Failure to create a valid and perfected security interest in collateral (subject to agreed exceptions)

- Minimum Tangible Net Worth of \$750MM (actual at 9/30/01: \$1,034MM)
- Prohibition of additional debt (subject to agreed exceptions)
- Limitation on liens and asset sales
- Prohibition on intercompany advances when (i) a default has occurred at either the Borrower or Guarantor, (ii) the sum of Borrower's cash and availability under the Facility is less than \$10MM, or (iii) when Guarantor or the Borrower is no longer investment grade.
- Required by an amount equal to net cash proceeds from asset sales, equity issuances or capital markets transactions (subject to agreed exceptions) at TW
- Failure to pay principal or interest when due (5day grace period)
- Failure to comply with covenants (5-day grace period)
 - Cross default to Debt of Borrower greater than \$10MM
- Event of Default under Enron's \$1.75 billion 364-day revolver or Enron's \$1.25 billion multiyear revolver
- Bankruptcy or insolvency of Enron
- Enron ceases to own directly or indirectly 100% of Borrower
- interest in collateral (subject to agreed exceptions)

"If the Borrowers exercise the option to increase the facility size, neither Citibank nor Chase is obligated to increase its commitment. The increase would be effected by bringing in a new lender or lenders.

The Enron Guaranty will include the representations and warranties, coveriants and defaults contained in Enron's revolving credit agreements and will also require the maintenance of corporate separateness between Enron and the Borrowers.

2. Key Structural Features

A bankruptcy remote structure will be established for each Borrower and the Borrower's parent using a "Golden Share" structure. The key elements of this structure are as follows:

- A new class of equity securities will be issued by each Borrower and the Borrower's parent and held by a third-party trustee for the benefit of Citibank, N.A. and The Chase Manhattan Bank. The affirmative vote of such securities is required to file a voluntary bankruptcy petition.
- 2) The trustee will take the voting instructions from Citibank and Chase so that the banks would be able to block a voluntary bankruptcy filing.
- 3) Each Borrower and the Borrower's parent will be required to adhere to "separateness" covenants.

These elements are designed to (a) present a voluntary bankruptcy of any of the Borrowers and their parent and (b) limit the likelihood of a consolidation of the Borrowers into the Enron bankruptcy estate should Enron file.

3. Collateral

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A. Going Concern - Value of Pipeline stock

Estimated firm value:	NNG \$2.28	<u>TW</u> \$1.5B
Discount rate:	6.7%	6.7%
Loan/Value:	(500+450)/2,200= 43.2%	550/1,500= 36.7%
Loan/Value (if upsize option exercised):	(500+550)/2,200= 47.7%	650/1,500= 43.3%

The estimated firm value was established using company projections and a discount rate of 6.7% for both NNG and TW. The discount rate was deemed appropriate due to the high probability of achieving projected cash flows due to the nature of the Borrower's revenue contracts. The estimated equity value equated to a 10x 2000 EBITDA multiple for Transwestern and an 9.0x multiple for Northern Natural, which are consistent with the comparables.

Our loan to value ratios are reasonable even if the Company upsizes the credit facilities to a total of \$1.28.

The key assets are (i) shipper contracts, (ii) accounts receivable, and (iii) property, plant & equipment, which collectively represent the value of a federally regulated geographical gas pipeline oligopoly.

Shipper Contracts . Importantly, we will have the assignment of all shipper contracts. A breakdown of the top 10 shippers on each system is as follows:

NN	G			TW	
Minnegasco	Baa1	\$84	So Cal Gas	A2	\$56
Utilicorp	Baa3	55	Texaco	Aa2	16
Northern States Power	A1	45	PG&E Energy Trading	Baa2	16
Mid American Energy	A3	44	Sempra	A2	15
Nicor Gas Company	NR ·	16	BP Energy	Aa1	11
ANR Pipeline .	Baa1	12	Duke Energy	A1	8
Northern States Power Wis.	A1	10	El Paso Energy	8aa2	7
IES Utilities	A2	9	Burlington Resources	A3	5
Wisconsin Gas	Aa2	9	Agere Energy	NR	5
Reliant Energy	Baat	7	US Gas	NR	4
		\$291	1		\$143
(Represents 65% o	f LTM Revenue		(Represents 80°	of LTM Revenu	

Over the next year, no contract expires on either system. Over the next 3 years, contracts representing about 12% of NNG total revenues expire, although the company believes those will be renewed. No contracts on TW expire over the next 3 years. We note the revenue concentration at Southern California Gas, however this contract runs through 10/05. The company reports that Southern California Gas has always performed under its contracts, one of which is to take gas at the California border and the other is to put gas into the pipeline in the gas producing fields. PG&E is now pre-paying for the transportation service.

Accounts Receivable
The following values were provided by the company as of 8/30/01.

(\$'s in millions)	NNG	TW
Gross Accounts Receivable	\$29	\$16

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 Less: Payables
 15
 6

 Net Accounts Receivable
 \$14
 \$10

These pipelines report relatively small receivable balances at month end due to billing practices. As noted elsewhere in this memo, approximately 90% of revenues are comprised of demand charges which are billed on the 1° of each month and due by the 10° of that same month. The remaining 10% of revenues - commodity charges for the actual movement of natural gas - are billed on the 10° of the following month and due by the 25° of that month. The month-end receivables balance represents the portion of both the demand and transportation charges which were not paid by the due date but are still in the 0-30 day aging category. The company reports that its bad debt expense is negligible and that receivables nearly always collect within 30 days.

Accounts payable also age within 30 days and represent primarily monthly operations and maintenance expenditures.

Property, Plant & Equipment

The following values were provided by the company as of 8/30/01. (This does not include all PP&E.)

(a s m mmons)	NNU	<u>1W</u>
Compressor Stations	. \$405	\$261
Pipelines	626	268
Storage	109	na
Total	\$1140	\$529
	Key Statistics	
	NNG .	TW
Miles of pipe	16,500	2,600
# of Compressor Stations	85	31
# of Storage Facilities	3	0
# of states	15	6
	the first section of the section of	

4. Perfection / Preference Issues

Prior to Closing, we intend to file UCC-1's with the Secretary of the State of Delaware (where the pipeline companies are incorporated) as well as the Secretary of State of each state through which the pipelines pass. Pursuant to the UCC, our security interest will be perfected by filing under the UCC, which includes shipper contracts, receivables, inventory, pipe, compressors and other equipment. The net book value of pipes, compressors and receivables at NNG is \$626MM, \$405MM and \$29MM respectively at \$970001. These same values at TW are \$268MM, \$258MM respectively. We plan to deliver the UCC-1's tomorrow (11/5) or Tuesday (11/6) and obtain the signed/stamped UCC-1 by the end of the week – November 9.

We perfect on the value of the Borrowers stock by taking physical possession at Closing. SSB's M&A team has valued NNG at approximately \$2.2 billion and TW at \$1.5 billion.

With respect to the real property – gas storage facilities, easements, rights-of-way, and any parcels of land – the timing of perfection is more problematic. Our thought is that the real property with the highest value that we can get to immediately (i.e. within 10 days of Closing) are the three gas storage fields on the NNG system which have a net book value \$109MM. Enron thinks that the description of real property rights relating to at least a portion of these facilities is authentone. Ideally, these liens would be taken and perfected either before Closing or within the 10-day period following Closing. In addition, we can be perfected as to all of the real property in some states, such as Texas, either before Closing or within the 10-day period following Closing.

5. Collateral Filing and Perfection Timetable

Monday (11/5) ~ Tuesday (11/6)

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Send UCC-1's covering all pipeline personal property to Secretary of State of Delaware and Secretaries of States through which the pipelines pass.

Tuesday (11/6) - Thursday (11/18)
Hand collect signed/stamped copies of UCC-1's with designated couriers. We would have all filings in place and become immediately perfected when the collateral is granted to us - at Closing.

Collateral covered by these filings:

(S's in millions)	NNG	TW
Stock	\$2,200	\$1,500
Acct, Receivable	29	16
Compressors	450	282
Pipe	800	495
Shipper Contracts	147	96
Laan Amount	*EEA	*650

Valuing the shipper contracts is somewhat difficult given our belief that in an Enron or Pipeline bankruptcy, the pipes would continue to operate as they are regulated utilities and the only source of gas for many municipalities. Continuing to operate would require normal operations expenditures as well as maintenance CAPEX. Consequently, we thought a reasonable proxy for the value of the shipper contracts is 2001 EBITDA – maintenance CAPEX.

6. Ways Out

(i) Refinancing

Enron is able to stabilize its financial position over the next 12 months and it regains access to the public capital markets, then our bank facilities should be able to be refinanced.

(ii) Sale of Pipelines

If the overall Errion situation deteriorates to the point which requires us to foreclose on the stock of the pipelines (assuming our bankruptcy remote structure holds up), then we would be able to market the pipelines as separate operating systems. Given the demand for gas in the California market; it would seem that Transwestern would be an attractive asset for any number of potential bidders. Although Northern's market is not a hot growth market like California, it nevertheless serves a number of important metropolitan areas (Omaha, Chicago, Minneapolis) and has stable cash flow. With a loan-to-value ratio of only 50%, there would seem to be ample cushion. Moreover, we would not need FERC approval to self the stock.

(iii) Liquidation of Collateral In the event of a pipeline or Enron default and our bankruptcy remote structure does not hold up such that the pipelines are consolidated into an Erron bankruptcy, our ability to foreclose on the stock would be difficult. Consequently, we would foreclose on the physical assets secured by our liens and mortgages. Because each of the pipelines is a regulated utility, the FERC would not allow us to sell pieces of the pipelines. The most likely scenario is that we would have to wait for a Chapter 11 reorganization and then cashflow our way out.

(iv) Cash Flow
In the event that we are forced to rely solely on the cash flows of the Borrowers to repay the loan, our base case scenario
projects that we would be paid off in 2014 for NNG and 2013 for TW. Our sensitivity case projects that we would be paid off in 2016 for NNG and 2014 for TW.

7. Syndication Strategy

Although our total commitment in this transaction was approved as a book and hold, we would consider syndicating the facility after Enron's financial condition has stabilized. That will likely require the company to execute several retirm asset sales and convincingly demonstrate that its trading operation remains healthy. The company plans to brief lenders in detail about its financing plan at a bank meeting Friday, November 9. We will be better able to assess bank-market support for Enron following that meeting. However, we have had a number of reverse inquiries concerning participation in the pipeline credit facilities following the announcement of these facilities. These inquiries have come from several of Enron's tier 1 banks which have been very loyal and supportive.

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Any potential syndication would likely commence early next year and would also likely include extending the maturity of the existing \$1.75 billion 364-day facility which matures in April 2002. We would also recommend that Enron secure the \$1.75 billion revolver and we are currently evaluating potential collateral.

We believe that some portion of our pipeline credits could be syndicated given the quality of the pipeline operations and collateral as well as attractive pricing. While the pipes are rated BBB/Baa2, we have priced the facilities at a BB level (L+250 bps) with the ability to adjust through market flex.

Company/Borrower

Enron and its subsidiaries operate domestic interstate natural gas pipelines extending from Texas to the Canadian border and across the southern United States from Florida to California. Included among Enron's domestic interstate natural gas spipeline operations are Northern Natural Gas Company and Transwestern Pipeline. Each pipeline serves customers in a specific geographical area: Northern, the upper Midwest, and Transwestern, principally the California market and pipeline interconnects on the east end of the Transwestern system. Northern and Transwestern are interstate pipelines and are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission (the "FERC").

FERC Regulation

Erron's interstate natural gas pipeline companies are subject to the regulatory jurisdiction of the FERC under the Natural Gas Act (*NGA*) with respect to accounts and records, the addition of facilities, the extension of services in some cases, the abandonment of services and facilities, the curtainment of gas deliveries and other matters. The FERC also has jurisdiction over the rates and charges for the transportation of natural gas in interstate commerce and the sale by a natural gas company of natural gas in interstate commerce for resale. Northern and Transvestem hold the required certificates of public convenience and necessity issued by the FERC authorizing them to construct and operate all of their pipelines, facilities and properties for which certificates are required in order to transport and sell natural gas for resale in interstate commerce.

As necessary Northern and Transwestern file applications with the FERC for changes in their rates and charges designed to allow them to recover substantially all their costs of providing service to transportation customers, including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period and in certain cases are subject to refund under applicable law, until such time as the FERC issues an order on the allowable level of rates.

In order for costs to be eligible for recovery in the tariff, the FERC must agree that the service is necessary. Pipelines typically demonstrate the necessity of capital expenditures by having prospective shippers sign contracts to use the capacity. Enron Corp and Enron Transportation Services in 2000 billed Transwestern and Northern Natural \$13 million and \$45.8 million, respectively, for administrative expenses that are recoverable from customers.

Under current FERC rate design policy, pipelines are permitted to recover in the demand component of their rates all fixed costs, including income taxes and return on equity, allocated to firm customers. Since a pipeline recovers demand costs regardless of whether gas is ever transported, the straight fixed variable rate design has reduced the volatility of the revenue stream to pipelines.

Each of these pipeline companies charges a "postage stamp" tarilf to shippers. This means that shippers pay the same rate for capacity regardless of distance and reimbursement for actual costs, which may vary with distance. The average tariff at Transvestem is \$0.25 per MMBTU and at Northern Natural \$0.35 per MMBTU versus a \$3 per MMBTU recent average for natural gas at the wellhead.

Shippers may buy capacity in the pipeline under short and long-term contracts, buying either firm or interruptible service. Firm Transportation is an option acquired by shippers for a fixed fee to ensure that they can move gas through the pipeline on peak demand days.

 Pipeline Description
 Transwestern
 Northern Natural

 In-Service date:
 1959
 1940s

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Service area:	West Texas to California Border, bi-directional	Texas and Oklahoma to Minnesota, Michigan and Illinois
Capacity:	1.1 Tbtu/d (East - West); .89 Tbtu/d (West - East)	4.5 Totu/d (North section); 1.6 Totu/d (South section)
2000 throughput:	1.657 Tbtu/d	3.5 Totald
Utilization rate:	83%	78% (Seasonality)
FERC - Regulated tariffs:		
Last major rate case:	1994	1998
Next expected rate	2004	6/2003
case:		
% Capacity subscribed	89% (West)	56% (North)
through 2003:	99% (East)	72% (South)
% Capacity subscribed	80% (West)	50% (North)
through 2005:	90% (East)	60% (South)
% Transmission Revenues	90%;	85%
from capacity reservation	Paid whether or not gas is shipped	Paid whether or not gas is shipped

Northern Natural Gas Company

Northern Natural Gas Company
Through its approximately 16,500-mile natural gas pipeline system stretching from the Permian Basin in Texas to the Great
Lakes, Northern transports natural gas to points in its traditional market area of Illinois, Iowa, Kansas, Michigan, Minnesota,
Nebraska, South Dakota and Wisconsin. Gas is transported to twen border stations for consumption and resale by non-affiliated
gas utilities and municipatifies and to other pipeline companies and gas marketers. Northern also transports gas at various
points outside its traditional market area in the production areas of Colorado, Kansas, New Mexico, Oxidanya, Texas and North
Dakota for utilities, end-users and other pipeline and marketing companies. Northern provides transportation and storage
services to approximately 90 utility customers and end-users in the upper Midwestern United States. Most of Northern's
purpose are recognized for meability demanded charget life area has and constructed caractive rather than the support. revenues are comprised of monthly demand charges that are based on contracted capacity rather than throughput.

Northern Natural had a capacity utilization of about 78% based upon total capacity available of 4.5 Totuld (North section) and 1.6 Totuld (South section) during 2000. 85% of Northern's gas transmission revenues arise from demand charges, which are count security for reserving the capacity in the pipeline; this revenue is received whether the capacity is do not. If the capacity is not used, Northern can sell available capacity in addition to receiving the demand charge for that capacity. Approximately 56% of the North section and 72% of the South section are contracted out to 2003. In addition, 50% of the North sections demand charges are fixed through 2005. The next rate case for Northern Natural is in

Northern's customers have traditionally tended to sign contracts that expired when the next rate case is expected. Customers are mainly local distribution companies and wish to pay as close to the current FERC-approved tariff as possible.

In Northern's market area, natural gas is an energy source available for traditional residential, commercial and industrial uses. Northern's throughput totaled approximately 1,291 billion British thermal units ("TBtu") in 2000. Northern also operates three natural gas storage facilities and two liquefied natural gas storage peaking units. These storage facilities provide Northern the operational capacity to balance its system on a daily basis and assist in meeting customers' heating and power generation

Northern competes with other interstate pipelines in the transportation and storage of natural gas, including Natural Gas Pipeline (Kinder Morgan) and Northern Border LP. Northern's newest competitor is the Alliance Pipeline, which has a total capacity of 1.325Tbtu/d. Affiance carries 'wet gas' to the Aux Sable gas processing plant west of Chicago. Here, liquids are stripped from the gas and the dry gas introduced into the gas distribution system. Affiance began commercial service on December 1, 2000 and its dry gas competes with Northern on the eastern fringe of the Northern system.

The economic impact of these competitors on Northern is limited since in its service area it charges a "postage stamp" tariff, which does not vary with distance. Duplicating its facilities, except for the largest markets, would be expensive. Northern has been unable to satisfy demand in its service area from gas put in the pipeline in its field area and taking gas off other pipelines is in the ordinary course of business.

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Northern Natural Gas Historical EBITDA:

Thoughput (Bbtu/d)		1998 4,098		1 999 3,820	20 00 3,529
Transmission Revenue Gas and liquids sales Other	\$	479 7 3	s	449 39 3	\$ 445 56 4
•	\$	489	\$	491	\$ 505
Costs	\$	207	\$	240	\$ 240
EBITDA	\$	282	s	251	\$ 265

Transmission revenues are approximately 85% capacity reservation fees and 15% commodity charges, which are incurred as the gas is moved. The decrease in recent years of transmission revenues is due to the warmer than average winters experienced in Northem's service region. Gas and liquids sales in 1999 – 2000 reflect the sale of working gas from the storage caverns; this is the maximum possible for technical reasons. To maintain pressure in these storage facilities, Northem signed System Balancing Agreements with other pipelines. Operating expenses rise primarily due to a rise in the cost of gas and liquids sales (\$10 million) and because about \$14 million worth of gas is owed annually to Sempra and TransCanada under these System Balancing Agreements ("SBA's") that continue through 2003 (with declining annual payments). These SBA's are essentially volume exchanges over time and do not involve cash outlays unless Northern elects to replace the working gas; it also could renew the SBA's.

Northern Natural Gas Company Financial Projections (\$MM):

	21	2001E		2002E		003E
Transmission Revenue	\$	454	\$	443	\$	452
Gas and liquids sales		33		33	*	33
Other		8		13		13
	\$	495	\$	489	\$	498
Costs	\$	258	\$	258	\$	255
EBITDA	\$	237	\$	231	\$	243

Gas transmission revenues remain relatively constant as do costs. These transmission revenues are highly likely to be achieved given that 85% of the revenues arise from demand charges and contracts do not expire until 2003. Total EBITDA decreases in 2001E because the company is not able to benefit from gas and liquids sales as it did in the prior two years.

Northern Loan Analysis (\$550MM Loan)

The M&A team values Northern at around \$2.2 billion. This equates to an 9.0x 2000 EBITDA multiple. As a result, the total debt (our loan and the existing \$500 million debt)-to-value ratio is 43% using the low end of the valuation range. At its last rate case (1998), Northern had similar leverage. This degree of leverage, consequently, should not create any FERC issues according to the company.

Northern has three debt issues totaling \$500 million that have bullet maturities in 2005, 2008 and 2011. The payoff analysis for the new loan assumes these obligations are met. The Payoff Date assumes that none of these bonds are refinanced.

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Management Case

					Average	
	2002	2003	2004	2005	2006 - 11	Loan Payoff Date
EBITOA	231	243 .	255	264	304	2011
EBITOA/Interest	3.1x	3.3x	3.8x	3.8x	304	2011
Debt/EBITDA	4.6x	4.2x	3.8x	3.3x		

The management projections are reasonable and highly likely to be achieved. The growth in gas transmission revenues, and thus EBITDA, reflects an assumption of approximately 2% per year growth in the market area. This is reasonable.

Citibank Loan Base Case

)	2002	2003	2004	2005	2006-11	Loan Payoff Date	
EBITDA	221	232	250	254	275	2014	
EBITDA/Int	3.0x	3.2x	3.5x	3.7x			
Debt/EBITDA	4.7x	4.4x	3.9x	3.5x			

The main differences between the management projections and the Citibank Loan Base Case is the exclusion of \$10 million of other revenues (this is described as unidentified "stretch" revenue in the operating plan) and a growth rate in gas transmission revenues of 1% per year.

Citibank Loan Sensitivity Case

-	2002	2003	2004	2005	2006 - 11	Loan Payoff Date
EBITDA	221	232	224	254	252	2016
EBITDA/Interest	3.0x	3.2x	3.4x	3.7x		
Debt/EBITDA	4.7x	4.4x	4.0x	3.5x		

The main differences between the Clibbank sensitivity case and the Management projections are the exclusion of \$10 million of other revenues (this is described as unidentified 'shetch' revenue in the operating plan) and a holding EBITDA flat at approximately \$253.5 million. Since so much of the revenues are contractual and the costs recoverable from rate payers if reasonable, this is very conservative.

Transwestern Pipeline Company

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Transwestem is an interstate pipeline engaged in the transportation of natural gas. Through its approximately 2,500-mile pipeline system, Transwestem transports natural gas from West Texas, Oklahoma, eastem New Mexico and the San Juan Basin in northwestern New Mexico and southern Colorado primarity to the Californian market and to markets off the east end of its system. Transwestem has access to three significant gas basins for its gas supply: the San Juan Basin, the Permian Basin in West Texas and eastern New Mexico and the Anadarko Basin in the Texas and Oklahoma Panhandles. Additionally, gas from the Rocky Mountain Basin can access Transwestem through pipeline interconnections. Transwestem's peak delivery capacity was approximately 1.7 billion cubic feet ("Bct") per day in 2000. Transwestern and its customers agreed contract rates through 2006 and agreed that Transwestern would not be required to file a new rate case for rates to be effective prior to November 1, 2006. Transwestern's current firm capacity for both west and east flow is fully subscribed under a combination of short-tern and long-term contracts. Relatively small increments of operational capacity! +come available from time to time and are generally sold on a daily or short-tern basis.

Transwestem's mainline includes a lateral pipeline to the San Juan Basin which allows Transwestem to access San Juan Basin gas supplies. Via Transwestem's San Juan lateral pipeline, the San Juan Basin gas may be delivered to California markets as well as markets off the east end of Transwestem's system. This bi-directional flow capability enhances and Granswestem added bi-directional flow capability in 1995 to increase system flexibility and utilization. Transwestem has firm transportation service on the east end of its system and transports Permian, Anadarko and San Juan Basin supplies into Texas, Oklahoma and the Midwestem United States. More recently, Transwestem has modified its operations to enhance its ability to supply the California market. In May 2000, Transwestem completed an expansion, which increased delivery capability to California by 140 million cubic feet ("MMct") per day. Transwestem is pursuing additional expansions to its pipeline of approximately 50 MMct per day and 150 MMct per day with expected completions in 2001 and 2002, respectively. Transwestem competes with several interstate pipelines in the California market and in its markets off the east end of its system.

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Transwestern's competitor in delivering to the California area is the El Paso Natural Gas Pipeline, which runs parallel south of Transwestern. El Paso is fully subscribed and is allocating space among shippers. As such, the El Paso system does not pose a major threat to Transwestern's growth potential.

Transwestern Historical EBITDA (\$MM):

Throughout (Dhhuid)	1	1998			2000	
Throughput (Bbtu/d)		1,608		1,462		1,657
Transmission Revenues Gas and liquids sales	\$	145	\$	142	\$	150 26
Other		13		. 4		-
	\$	167	\$	156	\$	176
Costs (excluding DDA)	\$	45	\$	49	\$	51
EBITDA	\$	122	\$	107	\$	125

Transmission revenues are approximately 90% capacity reservation fees and 10% commodity charges, which are incurred as the gas is moved. Gas and liquids sales arise from volumes that Transwestern selfs from volumes given to it by producers in excess of pipeline fuel requirements. This number will vary with both throughput and the price of natural gas. The \$13 million of other revenue in 1998 was the sale of fine pack," which is now provided by shippers.

Transwestern Company Financial Projections (\$MM):

	2001E		2002E		2003E	
Transmission Revenue Gas and Liquids sold		165 37	\$	171 30	\$	188 31
Other	\$	202	\$	201	\$	219
Costs (excluding DDA)	• \$	54	•	64	\$	64
EBITDA	\$	148	s	137	s	155

Gas transmission revenues rise under the impact of new expansions and increased throughput. These revenues are highly likely to be achieved. In 2002, \$157 million of the \$171 million of revenues arises from capacity payments. Nonetheless, the loan has been tested, and pays out fully in 2014, if the gas transmission revenue level is maintained at the 2002 level. Revenue for gas and liquids sold has been hedged at fixed prices for 2002 and 2003. Using Citibank \$3/MMBTU natural gas price assumptions, this revenue would fall to \$22 million. The Citibank Loan Sensitivity Case (see below) incorporates this assumption, as well as an unspecified 10% reduction in Ebida.

Transwestern Loan Analysis (\$650MM Loan)

Valuation

Variation

The M&A learn values Transwestern at \$1.5 - \$1.7 billion. This equates to a 10x 2000 EBITDA multiple. As a result, the loan to value is 43%, using the low end of the valuation range. At its last rate case (1994), Transwestern had similar leverage and this leverage, consequently, should not create any FERC issues according to the company.

The Payoff Date assumes that no bonds can be placed for Transwestern, the proceeds of which could repay the loan. This is conservative, especially since Transwestern has issued long-term debt in the past.

Management Case

	2002	2003	2004	2005	2006 - 11	Loan Payoff Date
EBITDA	134	155	166	177	192	2010
EBITDA/Interest	3 0x	3 4x	4.0x	4 9x		
DebVEBITDA	4.7x	4 2x	3,5x	2.9x		

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The Management Case assumes a 2.7% growth rate in gas transmission revenues and \$30-\$35 million per year of revenue from gas sales.

Citibank Loan Base Case

	2002	2003	2004	2005	2006-11	Loan Payoff Date
EBITDA	137	143	137	139	146	2013
EBITDAInt	3.0x	3.1x	3.3x	3.6x		
Deht/FRITDA	4.7x	4 5x	4.4x	4.0x		

The differences between the Management projections and the Loan Base Case is the reduction in revenues from gas sales by following lending guidelines for natural gas prices and reducing the growth rate in transmission revenues to 1% per year.

Citibank Loan Sensitivity Case

	2002	2003 .	2004	2005	2006 - 11	Loan Payoff Date
EBITDA	137	140 .	134	134	134	2014
EBITDA/Interest	3.0x	3.1x	3.2x	3.5x	3.8x	
D-LUEDITOS	4.7~	4 8*	4 5x	4 1x	3 8x	

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Other Balance Sheet Information:

		orthern Natu	rad	,	renewestern	
Current Assets	9/30/01	2000	1996	9/30/01	2008	1990
Cash	52	53	54	3	4	,,,,,,
AR	29,093	40,344	11,271	16.198	7.287	2.453
Transportation and exchange gas receivable	17,773	80,047	21,729	12,975	11,991	7,578
Assets from price risk management	11,419	-		14.077		.,
Regulatory assets	10,511	9,176	10,133	8,968	6.563	6617
Other	4,657	8,519	8,775	4 086	4.348	4.665
	73,508	136,139	51,962	54,307	30,183	21,317
PPGE Cost	2,790,571	2,743,866	2,754,453	1.023.684	987 107	966,179
Less Depreciation	1,458,317	1,442,835	1,434,681	118.481	104.364	96,024
	1,332,254	1,301,031	1,319,772	905,203	882,743	870,155
Other Assets	*					
Assets from price risk management	3,881	28,904	•	18,030	-	
Regulatory assets	189,346	207,800	164,061	74,970	79.053	84,644
Other	14,153	10,642		4,371	2,106	1.372
Total Other	207,380	247,348	171,636	97,371	81,159	86,016
Total assets*	1,613,139	1,684,518	1,543,372	1,056,881	994,085	977,488
"Excluding the following related parties" assets						
Accounts receivable - associated companies	281	192	3,124	789	293	918
Note receivable from parent company	390,733	296,611	182,865	274,934	378,021	295,993
Total Assets included related party assets	2,004,153	1,981,319	1,729,361	1,332,604	1,372,399	1,274,399
Current Liabilities .						
Trade and other	15.349	29.285	17.425	6.423	2.161	4 357
Associated companies	4.218	2,437	4.320	1,356	1,723	3.874
Transportation and exchange das payable	22.620	69,748	10.931	14,123	7,331	3,602
Liabilities from price risk management activities	18	U2,744	. 10,551	14,123	7,331	3,502
Deferred income taxes	2.479	2 374	3.259	2.203	2.129	2 492
Accrued taxes	25,993	24,785	23 625	7,890	6,129	5 806
Accrued interest	9 197	5.634	5.634	592	3,012	4 105
Regulatory habilities	2.888	12.257			3,012	4 103
Transition cost obligations	10,117	10,117	10.117			
Current portion of long-term debt				3 850	3 850	126 850
Reserve for regulatory and other contingencies	1,968	200	5.400	12,616	263	263
Other	8,274	7,524	759	24	11	414
	103,121	164,361	93,207	49,077	26,609	151,763
Long-term Debt, net of current meturities	499,723	499,666	499,588	11,600	161,600	15,450
Deferred Cradks and Other Liabilities						
Deferred income taxes	312,697	282,934	240,925	235,194	238,702	234,025
Liabilities from price risk management activities		12,759	-	-		-
Transition cost obligations	1.796	1,796	11,913			
Regulatory liabitides	32	37	45	•	-	•
Other	314,525	297,526	252,884	2,449	2,681	234,025
Stockholders Equity	1.066.784	1 019 766				
	.,	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	863,682	1,034,284	942,827	873,161
Total Liebilities and Stockholders Equity	2,004,153	1,981,319	1,729,361	1,332,604	1,372,399	1 274,399

BALANCE SHEET DISCUSSION:

- Price Risk Management Activities: Assets and liabilities from price risk management activities have appeared on the balance sheet for Northern Natural: Price risk management assets and liabilities have arisen due to trading and non-trading activities.

 Northern Natural: Price risk management assets and liabilities have arisen due to trading and non-trading activities. Northern utilizes interest rates waps and natural gas commodity price swaps to hedge the impact of fluctuations in interest rates on future debt issuance and the impact of market fluctuations of commodity prices on transport contracts.

 Transwestem: Transwestem utilizes financial instruments and natural gas commodity price swaps for non-trading purposes to hedge the impact of market fluctuations of commodity prices on contractual commitments. Since Transwestem's fuel needs are less than shippers provide for, they have natural gas to sell. Hedge accounting is utilized in non-trading activities where there is a high degree of correlation between price movements in the derivative and the item designated as being hedged. hedged.

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Regulatory Assets and Liabilities: Regulation by the FERC, SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" recognizes the economic effects of regulation. Accordingly, Transvestem and Northern Natural have recorded regulatory assets and liabilities related to such operations. Transvestem evaluates the applicability of regulatory accounting and the recoverability of these assets and liabilities through rates or other contractual mechanisms on an ongoing basis. Regulatory assets represent recoverable costs that are not required for gas transportation; pipeline coating costs are a reample. Regulatory assets are usually recovered over a defined time period, whereas items in the rate base receive a return indefinitely.

Accounts Receivable:

- Associated Companies: These accounts receivable would be normal trade receivables with those companies which fall under the Forms imbrella.
- Trade: Transwestern, through Enron, has entered into agreements which provide for the sale of trade accounts receivable with limited recourse provisions. At December 31, 2000 and 1999, Transwestern had sold receivables of \$13MM and \$10.9MM, respectively. Northern, at the same dates, had sold receivables of \$14.6 million and \$44.4 million, respectively. No receivables have been sold this year.

Note receivable from parent Company: Transwestern and Northern Natural are included in Enron's cash management program and based on the companies' cash availability or requirements, advances are made either to or from Enron. The net result of all of cash flows is reflected as "Note receivable from parent company" on the balance sheet. The companies receive (or pay) interest on its note receivable with Enron, which for 2000 was 6% on the note balance at December 31, 1997 and 9.5% on the note balance accumulated after 1997. This interest was not included in the loan or valuation analysis.

Transportation and exchange gas receivable/payable: Shippers schedule their volumes into Northern's pipeline system with subsequent deliveries to various markets. To the extent that actual receipts on Northern's system and actual deliveries off the system vary from scheduled volumes, imbalance receivables from and payables to the shippers are created. Such imbalances are valued at market index rates and recorded as "Transportation and exchange gas receivable/payable" on the Balance Sheet with an offsetting entity to operating and maintenance expense on the Statements of income.

Working Capital: Working capital changes for the companies were as follows:

•	MOI	mem retur	· ·	**	answestern	
\$ 000's	9/30/01	2000	1999	9/30/01	2000	1999
Working Capital	(29,335)	(28.030)	(38,121)	9,869	7,717	(2,678)
Change from prior year	(1,305)	10,091		2,152	10,395	

Working capital is calculated as current assets less current liabilities. In this calculation, the Note Receivable from Parent Company and the current portion of long-term debt payable are excluded. Working capital remains stable and a small portion of lotal balance sheet size of about \$2 billion for Northern Natural and \$1.3 billion for Transwestern.

Cooper Liability

Embedded within the "Other Current Liabilities" line item for Northern is a \$4.5 million inventory sale reserve. This reserve is for an inventory sale that could be reversed if Enron does not purchase a certain amount of equipment from Cooper.

Cash Flow Discussion:

By definition, the cash flows statement reconciles the income statement and the balance sheet. The most significant items in the cash flow statement are the note receivable from parent company, capex, issuance and repayment of debt.

	Northern Natural			Transwestern		
	9/30/01	2000	1998	9/30/01	2000	1999
Note receivable from parent company	(94,122)	(113,746)	(91,689)	103,087	(82.028)	(47.960)
Additions to PP&E	(30,117)	(63,063)	(110,028)	(36,520)	(26,445)	(33,252)
Issuance of long-term debt	-		250,000	-	- 150	
Repayment of long-term debt			(250,000)		(126,850)	(3.850)

Pipeline Safety Legislation:

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The Office of Pipeline Safety will likely issue a Pipeline Integrity Ruling for natural gas pipelines by the end of 2001. 64% of Enron's 25,000 miles of pipeline will require inspection to ensure coverage of high consequence areas. In February 2001, the US Senate passed and the House appears to support a bill directing DOT to require inspections of pipelines every five years for high consequence areas.

Enron plans to internally inspect 15,000 miles of pipeline within the next ten years. The project cost and time frame for Transwestern and Northern Natural Gas Pipeline are as follows (in Millions, in 2001 dollars). These costs are expected to be recovered from rate payers over time.

Asset	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Transwestern	6	15	15	0	0	0	0	0	0	0	36
Northern Natural Gas	12	25	25	25	25	25	25	25	25	25	237

On September 14, 2001, the FERC issued a statement of policy which describes the need for electric, gas, and oil companies to adopt new procedures, update existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems. The Commission has assured companies which fall under its regulation that they will approve applications to recover prudently incurred costs necessary to further safeguard the reliability and security of the energy supply infrastructure in response to the heightened state of alert due to the September 11 events.

Revenues information: Northern Natural:

The following table illustrates the top ten revenue producers for Northern Natural, accounting for approximately 55% of revenues.

Northern Natural Gas Company Top Revenue Producing Long-Term Transportation Contracts Revenue Based on LTM @ 9/30/01

Customer	Contract #	Total Revenue	Expiration Date
Reliant Energy Minnegasco	0021349	66,654,105	10/31/07
Utilicorp United, Inc.	0023614	42,398,585	10/31/03
Northern States Power Company	0023268	34,267,097	10/31/07
Midamerican Energy Company	0021305	20,689,205	10/31/05
Metropolitan Utilities District	0021385	17,666,534	10/31/06
Reliant Energy Minnegasco	0100796	15,002,184	10/31/07
Wisconsin Gas Company	0021862	8,896,840	10/31/05
ANR Pipeline Company	0022054	8,698,646	10/31/03
Northern States Power Co of Wisco	0023269	8,074,288	10/31/07
Midamerican Energy Company	0023844	8,010,582	11/30/13
NICOR Gas Company	0021527	7,488,992	10/31/04
IES Utilities. Inc.	0022252	7,460,582	10/31/03
teo ounido, ma		246,307,640	-

Although the Utilicorp and ANR contracts expire in 2003, the company expects them to be renewed. Utilicorp takes gas off Northern Natural at over 100 points and that infrastructure cannot be readily duplicated. ANR uses gas off Northern Natural for deliveries to Wisconsin since the ANR system is constrained.

The following table illustrates the top revenue producing contracts, which account for about 55% of revenues.

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Transwestern Pipeline Company Top Revenue Producing Long-Term Transportation Contracts Revenue Based on LTM @ 9/30/01

Customer	Contract #	Total Revenue	Expiration Date
Southern California Gas Company	08255	48,395,271	10/31/05
Pacific Gas and Electric Company	21165	18,565,725	3/31/07
Southern California Gas Company	20715	7,745,209	10/31/05
Pacific Gas and Electric Company	21175	5,774,214	3/31/07
8P Energy Company	25071	5,748,750	11/30/08
Burlington Resources Trading, Inc.	25025	4,209,600	11/30/06
Agave Energy Co.	26490	3,577,000	10/31/03
Duke Energy Trading and Marketing	26372	3,075,165	3/31/07
El Paso Energy Marketing Company	26678	3,050,650	3/31/07
El Paso Energy Marketing Company		2,956,500	10/31/05
		103 098 084	-

The Agave Energy contract (2% of gas transmission revenues), which is the only one to expire prior to October 31, 2005 is with a gas producer. Renewal is expected.

ENRON 9/30/01 UPDATE OF ENRON CORP

Enron has recently expanded the reporting of its financial results by both providing additional segments and expanding financial and operating information in the attached tables. Enron's business segments are as follows:

- Wholesale Services
 - Americas
 - Europe and Other Commodity Markets
- Retail Services
- Transportation and Distribution
 - Natural Gas Pipelines
 - Portland General
 - Global Assets
- **Broadband Services**
- Corporate and Other

Wholesale Services

Total income before interest, minority interests and taxes (IBIT) increased 28 percent to \$754 million in the third quarter of 2001, compared to \$589 million in the third quarter of last year. Total wholesale physical volumes increased 65 percent to 88.2 trillion British thermal units equivalent per day (Thrue/d) in the recent quarter.

- Ison merma units equivalent per oay; (i plaudy) in the recomit quarter.

 Americas This segment consists of Enron's gas and power market-making operations and merchant energy activities in North and South America. IBIT from this segment grew 31 percent to \$701 million in the recent quarter from \$536 million a year ago, driven by strong results from the North America natural gas and power businesses. Natural gas volumes increased 6 percent to 26.7 Totud, and power volumes increased 77 percent to 290 million megawatt-hours (MWh).

 Europe and Other Commodity Markets This segment includes Enron's European gas and power operations and Enron's other commodity businesses, such as metals, coal, crude and liquids, weather, forest products and steel. For the third
- quarter of 2001, IBIT for the segment remained unchanged at \$53 million as compared to last year. Although physical volumes increased for each commodity in the segment, the low level of volability in the gas and power markets caused profitability to remain flat.

Retail Services

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Enron's Retail Services product offerings include pricing and delivery of natural gas and power, as well as demand side

management services to minimize energy costs for business consumers in North America and Europe. In the third quarter of

2001, Retail Services generated IBIT of \$71 million, compared to \$27 million a year ago. Retail Services continues to

successfully penetrate markets with standard, scalable products to reduce consumers' total energy costs. Erron recently added new business with large consumers, including Wal-Mart, Northrop Grumman, the City of Chicago, Equity Office Properties and Wendy's in the U.S. and Sainsbury and Guinness Brewery in the U.K. To date in 2001, Enron has completed over 50

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transactions with large consumers. Enron is also successfully extending its retail energy products to small business customers, completing over 95,000 transactions in the first nine months of this year.

Transportation and Distribution

- The Transportation and Distribution group includes Natural Gas Pipelines, Portland General and Global Assets.

 Natural Gas Pipelines This segment provided \$85 million of IBIT in the current quarter, up slightly from the same quarter required was represented in this segment provided and nation or not in such carriers quarter, up signify from the same qual last year. Pipiline expansions are underway in high growth areas and include a 428 million cubic feet per day (MMcI/d) expansion by Florida Gas Transmission and a 150 MMcI/d expansion by Transwestern.
- Portland General Portland General Electric, an electric utility in the northwestern U.S., reported an IBIT loss of \$(17) million compared to IBIT of \$74 million in the same quarter a year ago. Portland General entered into power contracts in prior periods to ensure adequate supply for the recent quarter at prices that were significantly higher than actual settled prices during the third quarter of 2001. Although the rate mechanism in place anticipated and substantially mitigated the effect of the higher purchased power costs, only the amount in excess of a defined baseline was recoverable from ratepayers. Increased power cost recovery was incorporated into Portland General's new fifteen-month rate structure, which became effective October 1, 2001 and included an average 40 percent rate increase.

During Q4, Enron announced a definitive agreement to self Portland General to Northwest Natural Gas for approximately \$1.9 billion and the assumption of approximately \$1.1 billion in Portland General debt. The proposed transaction, which is subject to customary regulatory approvals, is expected to close by late 2002.

Global Assets - The Global Assets segment includes assets not part of Enron's wholesale or retail energy operations. Major assets included in this segment are Elektro, an electric utility in Brazit; Dabhol, a power plant in India; TGS, a natural gas pipeline in Argentina; Azuruc; and the Enron Wind operations. For the third quarter of 2001, IBIT for the segment remained unchanged at \$19 million as compared to last year.

Broadband Services: Enron makes markets for bandwidth, IP and storage products and bundles such products for comprehensive network management services. IBIT losses were \$(80) million in the current quarter compared to a \$(20) million loss in the third quarter of last year. This quarter's results include significantly lower investment-related income and lower

Corporate and Other: Corporate and Other reported an IBIT loss of \$(59) million for the quarter compared to \$(106) million loss a year ago. Corporate and Other represents the unallocated portion of expenses related to general corporate functions.

NON-RECURRING ITEMS

Enron's results in the third quarter of 2001 include after-tax non-recurring charges of \$1.01 billion, or \$(1.11) per diluted share, consisting of:

- \$287 million related to asset impairments recorded by Azurix Corp. These impairments primarily reflect Azurix's planned disposition of its North American and certain South American service-related businesses;
- \$180 million associated with the restructuring of Broadband Services, including severance costs, loss on the sale of inventory and an impairment to reflect the reduced value of Enron's content services business; and
- \$544 million related to losses associated with certain investments, principally Enron's interest in The New Power Company, broadband and technology investments, and early termination during the third quarter of certain structured finance arrangements with a previously disclosed entity (\$35MM income write-down and \$1.2 billion shareholders'

STORY

Borrower:	Transwestern Pipeline Company	Northern Natural Gas Company
Guarantor:	Enron Corp and a newly-formed bankruptcy-remote SPE	Same .
Amount:	\$650MM	\$550MM
Term:	· 364 days	Same.

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Security:	Capital stock of Borrower Unsecured intercompany note payable by Enron to Borrower All other assets of Borrower	Same
Conditions Precedent to All	1. No MAC	Same
Advances:	2. No default	
Covenants	Prohibition on additional debt Negative pledge No assets sales or transfers No advances to Enron if a default at borrower has courred or if Enron is non-investment grade	Same
Default	Minimum tangible net worth Failure to pay principal or interest Default under Enron Corp \$1.758 364-day revolver or \$1.258 multi-	Same
Pricing	year 3. Bankruptcy of Enron and/or Borrower Undrawn: 50bps Drawn: 250 bps	Same

D. RISKS AND MITIGANTS

Risk: Bankruptcy of Enron – Given the significant cash shortfall which is primarily associated with Enron's hefty amortization schedule over the next 12 months, and the current lack of access to capital markets, there is a strong probability that Enron's corporate credit ratings (currently Baa2/BBB with negative outlook) may be downgraded to below investment grade. Due to the significant counterparty exposure related to its trading business, if Enron's ratings fall below investment grade. Enron would be significant counterparty exposure reases to its training outsiess, it cirron's trading had been grade, entrol would be required to post sizable Letters of Credit, regardless of the strength of Enron's trading book and net position. Additionally, Enron has two significant structured transactions (Martin and Osprey) that are essentially field to Enron's credit rating, which would require defeasance of approximately \$5.3 billion of debt. One view is that even if Enron is able to maintain investment grade ratings, Enron could be out of cash in late November/December due to sizable maturities (\$689Mit in 40201). Additionally, Erron may have additional pressure on its liquidity due to both a slow down in trading volumes as a result of trading counterparties reduce exposure; and as counterparties force Erron into unfavorable positions.

Mitigants:

- The bankruptcy remote vehicle and the corporate separateness covenants should mitigate the risks of a voluntary bankruptcy by the borrowers and substantive consolidation with Enron in its own bankruptcy. If substantive consolidation occurs, however, the stock collateral would be negated, and we would rely on the pledge of all hard assets of the Borrowers...
- In addition, the security interest of the pledge of capital stock provides a senior claim to Enron's corporate unsecured
- If the debt is not collapsed, there are sufficient cash flows at the pipelines to support total debt and Enron credit support
- is currently not being viewed as a source of debt repayment.

 Pipelines could be sold in short time period. Strong valuation multiples continue to exist today. The identified pipelines are valued on a DCF basis, but can be equated to having an 9.0x and 10.0x EBITDA multiple.

Risk: Structural Issues - If Enron files for Bankruptcy protection, there is a chance that the pipeline companies would be substantively consolidated with Enron. Although we believe this risk is remote, if this were to happen the pledge of stock collateral would be negated and we would look to the hard assets for collateral. There is a preference risk with respect to the

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collateral that we are taking to secure the facility. This risk increases with respect to security interests that are obtained more than ten days after closing. There may not be sufficient collateral in the receivables to repay the facility.

- Mitigants:

 Our external counsel, Shearman & Sterling, has advised us that the probability of "Substantive Consolidation" should
- Our analysis indicates that the pipeline companies and their parent are solvent, this would avoid bankruptcy preference
- We will be perfecting our security in most of the collateral within ten days of closing; this would avoid bankruptcy preference risk as to this collateral.

Risk: Deteriorating cash flows at the Pipelines are not sufficient to repay debt

- Mitigants:

 FERC regulated pipelines with long historical operations Transwestern has been in operations for over 40 years, FERC regulated preserves with long insurance operations.
 Northern for nearly 60 years.
 Contracted capacity payments are 90% of Transwestern's revenues; and 85% of Northern's revenues.
 Loan pays out if 2002 contracts are maintained.
 Expansion can be undertaken if preceded by agreement with shippers and approved by FERC

ADDITIONAL RISKS OF THE PIPELINES:

RISKS	MITIGANTS				
	TRANSWESTERN	NORTHERN			
Default on loan or non- payment:	Stable Predictable EBITDA: Capacity charges account for 90% of revenue. Coverage ratios sufficiently robust to permit a	Stable Predictable EBITDA: Capacity charges account for 85% of revenues. This is a very important mid-Western pipeline that			
_	decline in firm shippers at next rate setting.	enjoys a near-monopoly service with many local gas distribution companies.			
Competition from other or new pipelines:	Many proposals to add capacity to California market but these may bring gas from other supply basins. San Juan basin and other suppliers to Transwestern will need to compete using wellhead prices. El Paso, the closest competitor is full and allocating space to firm shippers.	Impact of Alliance pipeline and Northern Border expansions have already been felt in northern and eastern portions of the service area. Postage stamp tariff structure and large number of delivery points work to protect Northern's position.			
FERC Regulation	Expansion capital expenditures are not usually undertaken unless the new capacity is deemed necessary. Necessity is typically demonstrated by shippers signing up for firm transportation service and committing to pay whether or not gas is actually shipped.	Same			
The pipelines could become too leveraged.	Too much leverage might induce FERC to lower tariffs since the cost of debt is less than the target ROE. Pro-form for this transaction, book leverage will be approximately 49%. Debt can also be amortized if needed. At the last rate case, book leverage was 42%, which it should be at the next rate case.	Too much leverage might induce FERC to lower tariffs since the cost of debt is less than the target ROE. Similar to Transwestern, except that the age of the pipeline and lack of expansion capital expenditures may attract more FERC sorutiny. At the last rate case, book leverage was 42%. If the next rate case is in 2003, book leverage should be below 48%.			

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C.\TEMP\Finck Credit Memo - 110701.doc

CITI-SPSI 0033091

The Cash Manage System of Transwestern and Northern is commingled with that of

Pending Litigation

Cash is commingled at Enron with cash from other Enron businesses. This is important an important source of cash. If a cash sweep becomes necessary, an appropriate mechanism could be put in place. Enron Transportation Services' general counsel has informed us that there is no pending or threatened material (greater than \$300,000) environmental lawsuits or investigation.

An Administrative Law Judge recently decided favorably on Transw

to-index trading. At risk is a \$10.5MM tariff payment. FERC will act as an appellate court.

Expects to conduct the proposed tests and inspections for about \$36 million during 2002 – 2004; expect recovery through rates if Expects \$237MM capex over 10 years; legislation not yet enacted; expect recovery through rates; included in forecast legislation is enacted

New Pipeline Safety legislation will be very expensive and could reduce Pipelines' returns.

RETURNS TO CITICORP

During 2000, total revenues from this relationship were \$50.1 million. Year-to-date, revenues have been \$35.4 million. \$12 million on up-front fees were earned on this transaction.

MANAGEMENT AND RELATIONSHIP BACKGROUND

RELATIONSHIP BACKGROUND:

Citibank enjoys a strong relationship with Enron Corp. William T. Fox. III, Head of Global Energy and Mining for Citibank, has a relationship with Enron dating back 20 years. Enron considers Citi to be one of its most respected top tier banks. This is evidenced by our role in the current financing.

ENRON CORP MANAGEMENT BACKGROUND:

Enron's long-time Chairman of the Board, Ken Lay, recently resumed the role of CEO after Jeff Skilling abruptly departed in mid-August. In addition, Andy Fastow announced a leave of absence on October 24, 2001. Jeff McMahon has been named CFO. McMahon had been serving as chairman and CEO of Enron's Industrial Markets group. From 1998 to 2000, McMahon was Enron's treasurer.

ENRON TRANSPORTATION SERVICES MANAGEMENT BACKGROUND:
Rod Hayslett, Sr VP and CFO of Enron Global Services (which includes the pipelines), has served in various positions in all of Enron's pipeline companies beginning in 1978. Areas of experience include strategic planning, financial planning, business development, finance and administration. Mr. Hayslett reports directly to Stan Horton, Chairman and CEO of Enron Global

Kevin Howard began his career at Enron in 1987 after 3 years with Deloitte, Haskins & Sells' Houston office. Have served in various accounting and finance positions for Enron's gas pipeline group (1987 - 1995), Enron Capital and Trade Resources - Europe (1995-1997), ECT - North America Assets (1997-1999), Enron Broadband Services (1999-2001), and current position as VP - Finance for Enron Global Assets (including the Enron pipelines). Kevin reports to Rod Hayslett, Sr. VP and CFO of Enron Global Services

SECURITY/COLLATERAL

Citi will have a first priority perfected security interest securing the obligations under the Facility and the Guaranties in (i) all capital stock of the Borrower pledged by its bankruptcy-remote parent, (ii) an unsecured subordinated intercompany note by Enron Corp. payable to the order of the Borrower ("Intercompany Note"); and (iii) substantially all other assets of the Borrower.

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CITI-SPSI 0033092

RAAC COMPLIANCE/KEY COVENANTS

No RAAC issues. See key covenants above.

WAYS OUT

Transwestern

Northern Natural

Refinance:

Refinancing entire \$650MM in bond market would maintain financial ratios within FERC parameters
Enterprise value of \$1.3 billion is twice the \$650

A large portion of the new debt could be refinanced in the bond market while maintaining target FERC ratios.

Enterprise value of \$1.3 billion of debt vs. enterprise value of \$2.0

Self:

Enterprise value of \$1.3 billion is twice the \$650 million of debt 2010 if cash swept beginning 1/1/03

Date repayment

billion 2012 if cash swept beginning 1/1/03

JOSEPH I. LIEBERMAN, CONNECTICUT, CHAIRMAN

CARL LEVIN, MICHIGAN
CANNEL X. AKAKA. HAWAH
RICHARO J. DURBIN, ILLINOIS
ROBERT G. TORRICCELL, NEW JER
MAX CLELAND, GEORGIA
THOMAS R. CARPER, DELAWARE
JEAN CARNAHAN, MSSOURI

PRED THOMPSON, TENNESSEE TED STEVENS, AL ASKA SUSAN M. COLLINS, MAINE GEORGE V. VOINOVICH, OHIO THAD COCHRAN, MISSISIPPI ROBERT F. BENNETT, UTAN BUNNING, KENTUCKY PETER G. FITZGERALO, ILLINGIS

JOYCE A. RECHTSCHAFFEN, STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, DC 20510-6250

July 9, 2002

Ms. Jane C. Sherburne, Esquire Deputy General Counsel Litigation and Compliance Citigroup Inc. 1101 Pennsylvania Avenue, NW Suite 530 Washington, DC 20004

Via Fax at 202-220-3699

Dear Jane:

There are a number of additional facts that the Subcommittee needs to obtain before our hearing on July 23. Please provide the following:

A list of all prepay transactions Citigroup entered into with Enron. Provide the name of the transaction, date, commodity, and amount of each transaction. Furthermore, provide the total amount of fees that Citigroup earned in connection with each transaction, including, but not limitd to, up-front structuring and arrangement fees and the implied interest rate earned on each transaction.

Why did Citigroup set up Delta in the Cayman Islands?

Does Citigroup pay all fees associated with Delta Energy Corporation (Delta)? Does Citigroup pay any fees or costs for the administration or management of Delta to Givens Hall, Schroders or Maples and Calder, separate from fees related to specific transactions Delta enters into with Citigroup?

When did Schroders take on the administrative functions of Delta?

On what assets of Delta, if any, does Citigroup hold a lien?

Who had responsibility for Salomon Smith Barney's obligations as an underwriter of the Yosemite I notes? What due diligence was undertaken prior to the sale of the Yosemite notes in the 144A transaction?

Who prepared the September 20, 1999, Salomon Smith Barney presentation to Enron

Permanent Subcommittee on Investigations
EXHIBIT #192h

entitled "Capitalization" [CITI-SPSI 0031094 - 0031098]? Citigroup representatives confirmed to Subcommittee Staff that this likely was presented to and discussed at the "Investment Grade Commitment Committee." Confirm that this is the case. If this precise document was not presented, was the information embodied in the document presented?

Reconcile the capitalization table on page 19 (stated to be "as of June 30, 1999") of the Yosemite offering circular to the capitalization table set forth in the materials referred to in the preceding paragraph as well as the balance sheet set forth in Enron's 10-Q for the quarter ended June 30, 1999.

What consideration was given to disclosure in the Yosemite I Offering Memorandum of the chart entitled "SSB Additional Known Structures" (\$6 billion in off the book financings) included in the September 20, 1999 presentation [CITI-SPSI 0031097]?

The official position, title, and department (group, division, etc.) of Citigroup that the following individuals work for currently (as of July 2002) and worked for during the period(s) indicated next to the individual's name:

- A. Steve Wagman (September 2000 and May 2001)
- B. Azfar Hashmi (September 28, 2000)
- C. William Fox (April 1999; April 2001; September 2001; and October 2001)
- D. Thomas Stott (April 1999; April 2001; and October 2001)
- E. Alberto J. Verme (September 2001 and October 2001)
- F. James F. Reilly (December 1998; April 1999; September 2001; and October 2001)
- G. Michael W. Nepveux (October 2001)
- H. Lydia G. Junek (October 2001)
- I. Steve Baillie (April 1999)
- J. David B. Gorte (December 1998)
- K. Timothy Swanson (May 2001 and June 2001)
- L. Rick Caplan (May 2001)
- M. Amanda Angelini (May 2001)
- N. Steve Incontro (May 2001)
- O. James Forese (June 2001)
- P. Alfred W. Griffin (November 2001)
- Q. Amy K. Pincu (November 2001)

In addition, as we have previously discussed, we need to schedule phone calls to complete our interview of James Reilly and discuss the Travelers Insurance matter.

Please contact me if you have any questions and to schedule the calls (202-224-9505). Thank you for your assistance.

Bob Roach

Janc C. Sherburne Deputy General Counsel Lirigation and Compliance Citigroup Inc. 1101 Pennsylvania Avenue NW Suite 530 Washington, DC 20004

Tcl 202 220 3690 Pax 202 220 3699 New York 212 793 4942 sherhurnej@citi.com

July 17, 2002

By Telecopy

The Honorable Carl Levin
Chairman
The Honorable Susan Collins
Ranking Minority Member
United States Senate
Committee on Governmental Affairs
Permanent Subcommittee on Investigations
Washington, D.C. 20515-6115

Citigroup: Subpoena E02499

Dear Chairman Levin and Senator Collins:

In response to the Subpoena issued by the Committee dated July 2, 2002, and faxed to me on July 9, 2002, please find enclosed a summary document that is responsive to the questions posed under requests 1 and 2, at Schedule A.

The document we are enclosing includes client sensitive and proprietary information that is maintained confidentially by Citigroup. Citigroup requests that the Committee treat these documents, and all other information provided by Citigroup, confidentially.

Sincerely yours,

Jane C. Sherburne Deputy General Counsel

Enclosures

Robert Roach, Chief Investigator

Kim Corthell, Staff Director to the Minority

Citigroup Response to July 2 Subpoena Senate Permanent Subcommittee on Investigations

Summary in Lieu of Production of Document

The following are the names of Citigroup, Inc. clients or counterparties that engaged in pre-paid forward transactions with a special purpose vehicle and a description of (1) the number of transactions; (2) identities of any special purpose vehicles used by the client or counterparty; and (3) whether or not price risk was hedged with Citigroup:

Arkla Exploration Company (1992):

- One transaction (1)
- (2)International Commodity Merchants
- Undetermined (documents have not yet been located)

Amerada Hess Corporation (1993):

- One transaction (1)
- (2)**Delta Energy Corporation**
- (3) Price risk hedged on the NYMEX, not with Citibank.

Enron Corporation: (1) Transactions identified below, as follows:

- December 1993

 - Vega Energy Corporation Price risk hedged on NYMEX (3)
- September 1994
 - (2)**Delta Energy Corporation**
 - Some price risk hedged with Citibank (3)
- December 1998
 - **Delta Energy Corporation**
 - Price risk not hedged with Citibank (3)
- June 1999
 - No SPV was used; Toronto Dominion was a counterparty
 - Citibank was counterparty to hedges with Toronto Dominion (3)
- November 1999
 - No SPV was used; Toronto Dominion and Royal Bank of Scotland served as counterparties
 - All three bank counterparties engaged in price risk hedges (3)

Citigroup Response to July 2 Subpoens Senate Permanent Subcommittee on Investigations

- December 1999
 - **Delta Energy Corporation** (2)
 - Price risk hedged with Citibank (3)
- February 2000
 - **Delta Energy Corporation**
 - Price risk hedged with Citibank (3)
- August 2000
 - **Delta Energy Corporation**
 - Price risk hedged with Citibank (3)
- May 2001
 - **Delta Energy Corporation** (2)
 - Price risk hedged with Citibank (3)
- June 2001
 - (2)**Delta Energy Corporation**
 - (3) Price risk hedged with Citibank

With respect to request 1(c), for which we have interpreted "a financing structure similar to Yosemite" to mean a credit linked note with a prepaid placed in the trust structure, Citigroup did not execute a financing structure similar to Yosemite for any client other than Enron. Citigroup made presentations regarding financing structures similar to Yosemite (referred to generically as "credit linked notes") to the following companies:

Williams Cos.

Kerr-McGee El Paso **NiSource** Mirant **PG&E** Corporation

Dynegy AÉP

Dominion **Duke Energy** Phillips 66

Devon Energy

Reliant **Equitable Resources**

Jane C. Sherburne **Deputy General Counsel**

Jane C. Sherburne Deputy General Counsel Litigation and Compliance Citigroup Inc. 1101 Pennsylvania Avenuc NW Suite 530 Washington, DC 20004 Tel 202 220 3690 Fax 202 220 3699 New York 212 793 4942

sherburnej@citi.com

July 22, 2002

Mr. Robert L. Roach Counsel to the Majority Permanent Subcommittee on Investigations Senate Government Affairs Committee 199 Russell Senate Office Building Washington, DC 20510

Dear Bob:

This letter is in further response to the questions you asked in your letter of July 9, 2002.

The fees received by Citibank in connection with prepaid transactions with Euron are as follows:

 In December 1993, Citibank entered into a \$150MM 18-month crude oil prepaid forward involving HPL Resources Company, a wholly owned subsidiary of Enron.

Fees at closing; 127.5 bps up front; 55 bps on \$45MM and 15 bps on \$105MM, ongoing borrowing spread.

 In September 1994. Citibank entered into a \$125MM 18-month crude oil prepaid forward involving Enron Cushing Oil Marketing, a wholly owned subsidiary of Enron.

Fees at closing: 35 bps up front; 50 bps ongoing borrowing spread.

 In December 1998, Citibank entered into a \$500MM, three-year prepaid forward natural gas and crude oil sale involving Enron.

Structuring fee: \$2.5MM; ongoing borrowing spread 52 bps.

In June 1999, Citibank entered into a 90-day, cash-settled \$250MM crude oil
prepaid forward sale involving Enron. In September 1999, the prepaid was
increased to \$337.5MM and its maturity was extended to December 1999.

These fees at closing represent what Citibank anticipated it would make over the life of the transaction. Of course certain transactions were settled early and not all expected fees were realized.

- Fees at closing: 40 bps up front; \$100,000 swap fee; 55 bps ongoing borrowing spread; \$100,000 restructuring fee.
- In December 1999, Citibank entered into a 180-day, cash-settled \$100MM crude oil prepaid forward sale involving Enron.
 - Fees at closing: \$200,000 up front; 65 bps ongoing borrowing spread.
- In June 2001, Citibunk entered into a 180-day, cash-settled \$250MM, gas prepaid forward sale involving Enron.
 - Fees at closing: \$500,000 up front; 60 bps engoing borrowing spread. Breakage fee of \$330,000.

Yosemites and ECLNs

- In November 1999, Citibank entered into a five-year, cash-settled \$800MM crude oil prepaid forward sale involving Enron in connection with the Yosemite I transaction.
- In February 2000, Citibank entered into a seven-year, cash-settled £206MM crude oil prepaid forward sale involving Enron in connection with the Yosemite II transaction.
- In August 2000, Citibank entered into a five-year, cash-settled \$475MM crude oil
 prepaid forward sale involving Enron in connection with the ECLN I transaction.
- In May 2001, Citibank entered into five-year, cash-settled crude oil prepaid forward sales of \$475MM, £109.5MM and £170MM involving Enron in connection with the ECLN II, ECLN Sterling and ECLN Euro transactions.

With respect to the credit-linked notes transactions (i.e., the Yosemite and ECLN transactions), the Company did not earn any separate fee or other compensation in connection with the prepaids. Rather, the Company was compensated for the prepaids through the general structuring fee or overall expected revenue associated with each deal. In the Yosemite transactions, the Company earned an overall structuring fee of \$1.6MM (Yosemite I) and \$0.5MM (Yosemite II), which compensated the Company for structuring the entire transaction (including, among other things, the Trust, the Citibank Swap and the prepaid). The Company did not receive any structuring fees with respect to the ECLN transactions. However, we understand that compensating the Company for its structuring efforts was taken into account in pricing the yield on the certificates to be issued by the Trusts and 100% of which would be purchased by Citibank. The certificates in the ECLN transactions had yields of 9% (ECLN I), 8.5% (ECLN II), 8.5% (ECLN-Sterling), and 7.5% (ECLN-Euro) per annum, respectively. The total structuring fee - of which the prepaids were only a part - together with the certificate yield realized by the Company in connection with these transactions, are as follows: Yosemite I: \$7.37MM; Yosemite II \$1.97MM; ECLN I \$484,361; and ECLN II \$352,716. Thus, the fees earned by the Company associated with the prepaids would be only a fraction of these amounts.

Why did Citigroup set up Delta in the Cayman Islands? A: Like many special purpose entities, Delta was established in the Cayman Islands because it is a tax neutral jurisdiction.

Does Citigroup pay all fees associated with Delta Energy Corporation (Delta)? A: No.

Does Citigroup pay any fees or costs for the administration or management of Delta to Givens Hall, Schroders or Maples and Calder, separate from fees related to specific transactions Delta enters into with Citigroup? A: Yes. Citibank paid fees to Givens Hall (and later Schroders) for yearly administrative costs relating to Delta. Enron paid fees to Maples and Calder for its work on behalf of Delta in connection with certain transactions. Following the Enron bankruptcy, Citi paid Maples and Calder a fee for legal services performed in connection with the unwind of the Yosemite and ECLN transactions.

When did Schroders take on the administrative functions of Delta? A: Givens Hall was the administrator of Delta at the time of the ECLN I transaction in August 2000. By the time of the ECLN II transaction in May 2001, Schroders had taken over the administrative functions of Delta.

On what assets of Delta, if any, does Citigroup hold a lien? A: Citigroup currently holds no lien on the assets of Delta. In each of the prepaid transactions in which Delta was involved, Citibank held a lien on Delta's assets for the life of the transaction.

Who had responsibility for Salomon Smith Barney's obligations as an underwriter of the Yosemite I notes? What due diligence was undertaken prior to the sale of the Yosemite notes in the 144A transaction? A: The investment banking division of SSB, and its outside counsel, undertook due diligence in connection with the sale of the Yosemite I notes. SSB reviewed the business and financial statements of Enron. The due diligence review process performed by SSB was substantially consistent with the due diligence review process that it would have performed if the securities were offered in a registered transaction. SSB received an opinion from Enron's outside counsel and a comfort letter from Enron's auditor. We refer you to the attached Index of Closing Documents for Yosemite Securities Trust I Notes that details the Opinions and other documents obtained in connection with this transaction.

The official position, title, and department (group, division, etc.) of Citigroup that the following individuals work for currently (as of July 2002) and worked for during the period(s) indicated next to the individual's name:

A. Steve Wagman (September 2000 and May 2001)

Now: Managing Director, Corporate Derivatives Marketing September 2000: Director, Corporate Derivatives Marketing

May 2001: Managing Director

B. Azfar Hashmi (September 28, 2000)

Now: Associate

September 2000: Associate

C. William Fox (April 1999; April 2001; September 2001; and October 2001)

Now: Managing Director/Industry Head, U.S. Energy and Mining

April 1999 - October 2001: Executive

D. Thomas Stott (April 1999; April 2001; and October 2001)

Now: Managing Director/Risk Manager, GRB

April 1999 - April 2001: Specialist October 2001: Risk Manager

E. Alberto J. Verme (September 2001 and October 2001)

Now: Managing Director, Head of Global Power and Energy

September - October 2001: Same

F. James F. Reilly (December 1998; April 1999; September 2001; and October 2001)

Now: Managing Director Power & Energy Group December 1998 - April 1999: Executive September 2001: Managing Director

G. Michael W. Nepveux (October 2001)

Now: Sr. Banker/Director, U.S. Energy (Houston) October 2001: Sr. Banker I.

H. Lydia G. Junek (October 2001)

Now: Sr. Banker/Managing Director, U.S. Energy (Houston)

October 2001: Sr. Banker II.

I. Steve Baillie (April 1999)

Now: No longer at Citi

April 1999: Banker

J. David B. Gorte (December 1998)

Now: No longer at Citi

December 1998: Specialist, Licensing Group

Note: We understand that the historical information recorded here reflects what is available from the Citigroup HR database. It is somewhat limited and does not provide full titles. If necessary, we could obtain these through direct conversations with the relevant individuals.

K. Timothy Swanson (May 2001 and June 2001)

Now: Associate
May - June 2001: Associate

L. Rick Caplan (May 2001)

Now: Managing Director and Co-head/North American Credit Derivatives and Global Portfolio Solutions
May 2001: Managing Director, Credit Derivatives

Amanda Angelini (May 2001) M.

Now: Vice President, Credit Derivatives May 2001: Same

N. Steve Incontro (May 2001)

Now: Vice President, Credit Derivatives

May 2001: Same

O. James Forese (June 2001)

Now: Managing Director, Derivatives Trading

June 2001: Same

P. Alfred W. Griffin (November 2001)

Now: Associate, Capital Structuring Group November 2001: Same

Q. Amy K. Pincu (November 2001)

Now: Banker, U.S. Energy (Houston)

November 2001: Same

Please let me know if you have any further questions.

Sincerely yours.

Jane C. Sherburne Deputy General Counsel

Attachment

cc: Kim Corthell, Minority Staff Director (w/attachment)

CLOSING DOCUMENTS

YOSEMITE SECURITIES TRUST I \$750,000,000 8.25% Series 1999-A Linked Enron Obligations (LEOs) \$75,000,000 Certificates

November 18, 1999

		Item No.
I.	PRICING DOCUMENTS	112117.70.
	Short Form Trust Agreement	:
	Certificate of Trust of Yosemite Securities Trust I certified by the Delaware Secretary of State	
	Closing Agreement	E
	Note Purchase Agreement	٩٩
	Agreement regarding the attached definitions referred to as Appendix A of the Collateral Security Agreement	5
	Preliminary Offering Memorandum	6
	Final Offering Memorandum	7
	Pricing Date Direction Letter,	8
	Blue Sky Survey[12.17]	9
	Auditor's comfort letter from Anhur Andersen[12.16]	10
T1	PRE-CLOSING DOCUMENTS	
	Flow of Funds Memorandum	iı
	Trust Investment Settlement Memorandum	12
	Authentication Order for the Notes	13
	Delivery Certificate for the Notes	14

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CITI-SPSI 00:03618

	μ	em No.
	Confirmation that United States Trust Company of New York has opened the following accounts: [6.8][6.9]	15
	Wire Transfer Centificate	16
111.	CLOSING DOCUMENTS	
	A. Principal Documents	
	Amended and Restated Yosemite Securities Trust I Agreement[1.1] Exhibit A – Form of Certificate Exhibit B – Form of Transfer Certificate	17
	Yosemite Securios Trust I Indenture[1,3]	18
	Yosemite Securities Trust I Indenture Supplement[1.4]	19
	Collateral Security Agreement[1.7]	20
	Certificate Purchase Agreement[1.12]	,21
	Tax Indemnification Agreement[1.14]	22
	B. Documents Relating to Initial Trust Investments	
	Citibank Swap Master Agreement[15][1.6]	23
	Confirmation for Series 1999-A Enron Investments[11.7]	24
	Confirmation for Series 1999-A Permitted Investments [1].8]	25

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CITI-SPSI 0003619

<u>ltem No.</u>
C. Enron Documents
Certificate as to valid existence of Enron Corp. issued by the Oregon Secretary of State[2.1]
Charter documents of Enron Corp. certified by the Oregon Secretary of State[Part of 2.1]
Certificate of Enron pursuant to Section 3.1 of the Closing Agreement[2.3]
Officer's Certificates pursuant to Section 3.1 (i), (iii) and (k) of the Closing Agreement [2.2]
Officer's Certificate pursuant to the Note Purchase Agreement [2.4]
Officer's Certificate pursuant to section 3.1 of the Enron Agreement [2.5]
Officer's Certificate pursuant to section 3.2(a) of the Collateral Security Agreement[2.6]
D. Structured Products Corp. Documents
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E. Yosemite Securities Trust I Documents
Good Standing Certificate issued by the Delaware Secretary of State[4.3]
Trustee's Certificate pursuant to Section 3.1 of the Closing Agreement certifying delivery of the transaction documents[4.4]
Trustee's Cartificate pursuant to Section 3.1 of the Closing Agreement[4.10]
Certificates in the amount of \$37,500,000.00 registered in the name of each initial purchaser[4,14].
\$745,000,000 of Series 1999-A LEOs represented by two Rule 144A Global Notes, in the principal amounts of \$400 and \$345 million respectively, each registered in the name of Cede & Co. as nominee for DTC[4.15]
55,000,000 of Series 1999-A LEOs represented by one Temporary Regulation S Global Note registered in the name of Cede & Co. as nominee for DTC[4.16]

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Trust Order from the Trust to the Collateral Agent pursuant to Section 3.2 of the Collateral Security Agreement[4.17]
IRS Form W-9 Request for Taxpayer Identification[4.18]
F. Wilmington Trust Company Documents
Good Standing Certificate issued by the Secretary of Sate of Delaware[5.1]
Officer's Certificate pursuant to Section 3.1(i)(ii) of the Closing Agreement[5.2]
Certificate of Wilmington Trust Company acknowledging its presence in New York in its capacity as mustee for the Yosemite Securities Trust [[5,3]
Officer's Certificate confirming the establishment of the Certificate Distribution Account[5,4]
G. United States Trust Company of New York Documents
Good Standing Certificate issued by the State of New York Banking Department(6.1]
Certificate of United States Trust Company of New York as Indenture Trustee, Collateral Agent, Securities Intermediary and Account Bank pursuant to section 3.1(i) of the Closing Agreement (6.5)
Accession Agreement related to the Closing Agreement[6.11]
H. Citibank N.A Documents
Certificate of Citibank, N.A. pursuant to section 3.1 of the Closing Agreement[7.2]
Certificate of Ciubani, N.A. pursuant to section 3.2(a) of the Collateral Security Agreement [7.5]
Good Standing Certificate issued by the Comptroller of the Currency Administrator of National Banks

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CONFIDENTIAL CITI-SPSI 00:03621

hem No.

1839

1. Initial Centificate Purchaser Documents
Enron IRS Form W-9 Request for Taxpayer Identification[9-2]
Enron Corp. Accession Agreement[9.7]
Long Lane Master Trust IV IRS Form W-9 Request for Taxpayer Identification[10.2]
BankBoston, N.A., as Trust Administrator for Long Lane Master Trust IV Accession Agreement[10.7]
Certificate attaching Trust Orders[11.9]
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J. <u>Opinions</u>
Opinion of Vinson & Elkins LLP, counsel to Enron as to enforceability of Note Purchase Agreement[12.2]
Opinion of Vinsun & Elkins LLP, counsel to Enron as to enforceability of Closing Agreement and Certificate Purchase Agreement[12,3]
Opinion of Vinson & Elkins LLP, counsel to Euron, as to the Euron Agreement and Fee Letters[12.4]
Opinion of Vinson & Elkins LLP, counsel to Enron as to [12.5]
Opinion of Vinson & Elkins LLP, counsel to Euron, as to nonconsolidation [12,6]
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Opinion of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to the Initial Purchasers, as to security interests and perfection[12.9]
Opinion of Milbank, Tweed, Hadley & McCloy LLP, special counsel to the Initial Purchasers, as to 10b-5 maners [12.10]
Opinion of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to the Initial Purchasers as to Tax matters[12.11]

NY3-#7229503~1

CITI-SPSI 0003622

hem No.

CONFIDENTIAL

Opinion of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to Depositor, as to the Trust Agreement [12.12]

1840

	HEM NO
Opinion of Richards, Layton & Finger, Delaware counsel to Wilmington Trust Company[12.13]	69
Opinion of Seward & Kissel, counsel to United States Trust Company of New York [12.14]	70
K. Rating Agency Letters	
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Moody's Jetter with respect to the rating of the Notes	72
L. <u>Miscellaneous</u>	
Letter from CT Corporation evidencing appointment of CT Corporation as authorized agent for service of process on Yosemite Securities Trust I under the Transaction Documents[14.1][14.2].	73
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UCC-1 Financing Statements naming Yosemite Securities Trust I as debtor and United States Trust of New York as secured party	74
N. Comfort Levers	
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Letters assigning CUSIP, ISIN, CINS and Common Code numbers to the Notes[15.1]	76
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CITI-SPSI 0003623

CONFIDENTIAL

United States Senate

COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, DC 20510-6250

July 25, 2002

Mr. Sanford I. Weill Chairman and Chief Executive Officer Citigroup, Inc. 399 Park Avenue New York, N.Y. 10043

Dear Mr. Weill:

Earlier this week the Permanent Subcommittee on Investigations held a hearing on the role of financial institutions like yours in the collapse of the Enron Corporation. One of the very troubling factual issues that emerged was Citigroup's use of a Special Purpose Vehicle (SPV), Delta Energy Corporation (Delta), as a pass-through entity established in the Cayman Islands for Enron's "prepays" in which Citigroup participated. Citigroup witnesses told us that while Delta was established by Citigroup, while Citigroup paid for Delta's legal and administrative fees, and while Delta was used exclusively for Citigroup's purposes, nonetheless it was not effectively controlled by Citigroup. Substantial evidence the Subcommittee reviewed indicates otherwise. When we asked the Citigroup witnesses whether they would make available all of the documentation involving the establishment, administration and activities of Delta, the witnesses said they would have to consult legal counsel.

We ask that you personally, no later than 12 P.M. Monday afternoon, July 29th: 1) answer the following questions on behalf of Citigroup, in affidavit form, and return them to the Subcommittee office, SR-199; and 2) instruct/direct your agents, attorneys and all other parties acting on Citigroup's behalf responsible for the formation, operation, administration or management of Delta (including but not limited to Maples & Calder, Schroder Cayman Bank and Trust Company and all entities that have a beneficial or controlling interest in, or agency relationship with, Delta) to make available to the Subcommittee all documents related to the ownership, formation, operation, administration or management of Delta, and all documents that address or indicate Citigroup's relationship to Delta.

QUESTIONS: (Please note that any reference to Citigroup is intended to include any entity related to Citigroup or Citigroup's agent.)

- 1) Did Citigroup establish Delta and, if so, when, for what purpose and why in the Cayman Islands?
 - 2) Does Citigroup directly or indirectly own Delta, and if it doesn't, who does?

Permanent Subcommittee on Investigations

EXHIBIT #192i

Mr. Sanford I. Weill July 25, 2002 Page Two

- 3) If the owner of Delta is a charitable trust, does Citigroup own the charitable trust, and if it doesn't, who does?
 - 4) Who serves on the Board of Directors of Delta and the entity that owns Delta?
 - 5) Who is the agent for Delta and who is the agent for the entity that owns Delta?
 - 6) Does Citigroup pay for:

Delta's adminstrative fees? Registration fees? Attorney fees? Transactions fees?

- 7) When a non-Citigroup entity does business with Delta, with whom does the entity conduct the negotiations - a Citigroup employee or a Delta employee?
- 8) What obligations do any of the attorneys, trustees, administrators, directors, or beneficial owners of Delta have to Citigroup with respect to Delta and separate and apart from Delta?
 - 9) Does Citigroup effectively control Delta?

If you have any questions about this request, please contact either or us or have your staff contact Robert Roach, Counsel and Chief Investigator of the Subcommittee at 202-224-9505.

Sincerely,

Ranking Member

Chairman Permanent Subcommittee on Investigations

CL:ljg

Jane C. Sherburne Deputy General Counsel Litigation and Compliance Citigtoup Inc. 1101 Pennsylvania Avenue NW Snire 550 Washington, DC 20004

Tel 202 220 3690 Fax 202 220 3699 New York 212 793 4942 sherburnej@citi.com

July 29, 2002

By Telecopy and First Class Mail

The Honorable Carl Levin
Chairman
The Honorable Susan Collins
Ranking Minority Member
United States Senate
Committee on Governmental Affeirs
Permanent Subcommittee on Investigations
Washington, D.C. 20515-6115

Dear Chairman Levin and Senator Collins:

I am writing in response to your letter to Sanford Weill of July 25, 2002.

Citigroup has cooperated with the Subcommittee's inquiry by providing witnesses for interviews and testimony, producing thousands of pages of documents, responding to subpoenas, and providing answers to questions presented informally by your staffs. In our continuing effort to be cooperative, we are providing you with the enclosed affidavit of Mr. Weill.

As Mr. Weill's affidavit makes clear, he does not have personal knowledge of the matters about which you are inquiring. However, in order to provide you with answers to the specific questions raised in your letter, Mr. Weill asked Ms. Barbara Yastine, the Chief Financial Officer of Citigroup's Corporate and Investment Bank, to review the matter further. Her response, which Mr. Weill is submitting on behalf of Citigroup, is presented in an affidavit appended to his.

Doc#: NY6: 276508_2

Hon. Carl Levin Hon. Susan Collins May 15, 2002 Page 2

Additionally, to further aid the Subcommittee and to avoid delays that may be associated with obtaining documents from Delta through normal channels available to the Subcommittee, we have informed the Cayman Island entities referenced in your letter that Citigroup has no objection to their making available to the Subcommittee the documents in which you are interested related to Delta.

If you or your staffs have questions about these submissions, please do not hesitate to contact me.

Deputy General Counsel

Enclosures

AFFIDAVIT

STATE OF NEW YORK)
	. 55
COUNTY OF NEW YORK)

SANFORD I. WEILL, being sworn, states:

- 1. I am the Chief Executive Officer and Chairman of Citigroup, Inc. ("Citigroup"). It is the intention of Citigroup to continue to cooperate with the inquiry of the Senate Permanent Subcommittee on Investigations. To that end, I am responding to the July 25, 2002 letter addressed to me from Chairman Levin and Senator Collins.
- 2. Citigroup has over 270,000 employees and engages in millions of transactions every year. I have no personal knowledge of any of the transactions or entities raised in the Subcommittee's July 25 letter. Indeed, I understand that Delta Energy Corporation was established by Citibank in December 1993, five years prior to the merger between Citicorp and Travelers.
- 3. In order to be as helpful as possible to the Subcommittee, I have directed Barbara Yastine, the Chief Financial Officer of Citigroup's Corporate and Investment Bank, to review this matter and provide the information sought by the Subcommittee. On behalf of Citigroup, I attach hereto, as Exhibit A, Ms. Yastine's affidavit, which sets forth responses to the specific questions raised in the Subcommittee's letter.

Sanford I. Weill

Subscribed and swom to before me this 29th day of July, 2002.

Notary Public

Noting Public State of New York
No. 31-4995976
Qualified in New York County 2

Doc#: NY6: 276544_2

AFFIDAVIT

STATE OF NEW YORK)

SS.

COUNTY OF NEW YORK)

BARBARA YASTINE, being sworn, states:

- I am the Chief Financial Officer of the Corporate and Investment Bank, which consists of Salomon Smith Barney and certain corporate businesses of Ciribank.
- 2. At the request and direction of Sanford I. Weill, Citigroup's Chairman and Chief Executive Officer, I am setting forth below, based on my information and belief after reasonable inquiry, responses to the July 25, 2002 letter from Chairman Levin and Senator Collins of the Senate Permanent Subcommittee on Investigations on behalf of Citigroup:
- 1) Did Citigroup establish Delta and, if so, when, for what purpose and why in the Cayman Islands?

In December 1993, Citibank asked a Cayman Islands law firm to incorporate Delta Energy Corporation ("Delta") as an unaffiliated Cayman Islands Limited Liability Company, for the purpose of serving as a counterparty in a physically settled prepaid commodities forward transaction involving Amerada Hess. At the time of Delta's formation, a counterparty was necessary because regulations limited Citibank's ability to receive delivery of physical commodities, such as oil and natural gas. Delta was established in the Cayman Islands in order to achieve tax neutral treatment of this transaction.

2) Does Citigroup directly or indirectly own Delta, and if it doesn't, who does?

Citigroup does not directly or indirectly own Delta. Delta is owned by Grand Commodities Corporation ("GCC"). The sole shareholder of GCC is Givens Hall Bank and Trust ("Givens Hall"). Givens Hall placed its entire interest in GCC into a charitable trust known as GCC Trust.

3) If the owner of Delta is a charitable trust, does Citigroup own the charitable trust, and if it doesn't, who does?

Citigroup does not own GCC Trust. GCC Trust exists for the benefit of any qualifying charity, with the default being the National Council of Voluntary Organisations, a Cayman Islands charitable organization.

4) Who serves on the Board of Directors of Delta and the entity that owns Delta?

Corporate Services Limited is Delta's current sole director and GCC's current sole director. Neither Corporate Services Limited nor any prior directors has any affiliation with Citigroup.

5) Who is the agent for Delta and who is the agent for the entity that owns Delta?

The administrative agent for Delta has been Givens Hall since Delta's formation. The administrative agent for GCC has also been Givens Hall since GCC's formation. Maples and Calder, a Cayman Islands law firm, has been legal counsel to Delta and GCC since Delta's and GCC's formation. None of these entities is an affiliate of Citigroup.

6) Does Citigroup pay for:

Delta's administrative fees? Registration fees? Attorney fees? Transaction fees?

Delta's fees were paid in a variety of ways. Citibank has paid fees to Givens Hall for certain administrative costs — including registration fees — relating to Delta. In certain of the prepaid transactions structured by Citibank, Citibank paid the transaction expenses. In others, either the counterparty paid the transaction expenses, or Delta earned a "spread" on the swaps. With respect to attorney fees, prior to the Enron bankruptcy, these were paid in part by Citibank. Additionally, following the Enron bankruptcy, Citibank paid Delta's legal fees for services performed in connection with the unwinding of the Yosemite and ECLN transactions.

7) When a non-Citigroup entity does business with Delta, with whom does the entity conduct the negotiations – a Citigroup employee or a Delta employee?

Typically, SPEs do not engage directly in transaction negotiations; in the case of Delta, the non-Citibank entity that is engaging in transactions with Delta would conduct the transaction negotiations with Citibank. Delta's outside counsel would review transaction documents. Every transaction, after it has been negotiated, would be submitted to the board of directors of Delta for final approval.

8) What obligations do any of the attorneys, trustees, administrators, directors, or beneficial owners of Delta have to Citigroup with respect to Delta and separate and apart from Delta?

The attorneys, trustees, administrators, directors or beneficial owners of Delta have no obligations to Citibank with respect to Delta, except as specifically contracted for in a particular transaction involving both Delta and Citibank. I am not aware that any of the attorneys, trustees, administrators, directors or beneficial owners of Delta have any obligations to Citibank. Some of the same attorneys, trustees, administrators, directors and beneficial owners may have been involved in other Citibank transactions, and therefore may have obligations to Citibank arising out of those other transactions.

9) Does Citigroup effectively control Delta?

Citigroup does not control Delta. Delta was established at Citibank's request in 1993 as a special purpose entity (SPE) with the express intention of making it independent of, and unaffiliated with, Citibank under relevant legal and regulatory standpoints.

In order to accomplish that result, Delta was established in such a way that Citibank has no ownership in or personnel affiliated with Delta. Delta has an independent board of directors that controls Delta and is responsible for running its business.

Moreover, Delta's Memorandum of Association expressly authorizes Delta to engage in any lawful business, as approved by its directors. Although Citibank, like any company that creates an SPE, did not contemplate that Delta would complete transactions that did not involve Citibank, Delta is not obliged to enter into transactions with Citibank.

4

Thus, from a legal and regulatory perspective, Citibank understood Delta to be independent of, and not controlled by, Citibank. Although some of the facts described in the responses above (e.g., payment of fees) might seem to imply some level of control as that term is ordinarily understood in common usage, these are customary characteristics of independent SPBs and do not, in fact, demonstrate control under relevant legal or regulatory standards. SPEs are used routinely in structured transactions sponsored by a wide range of institutions and corporations.

BARBARA YASTINE

Subscribed and sworn to before me this 29th day

of July, 2002.

GREGORY A FORAN Notary Public, State Of New York No. 01F06058781

Qualified in New York County Commission Explored

citigroup

Jaor C. Sherbaraz Deputy General Counsel Litigation and Compliance

Citigroup Inc. 1.101 Pennsylvania Avenue NW Suite 530 Washington, DC 20004

Tel 202 220 3690 F2x 202 220 3699 New York 212 793 4942 sherburnej@ciri.com

August 7, 2002

By Telecopy and First Class Mail

The Honorable Carl Levin Chairman The Honorable Susan M. Collins Ranking Minority Member United States Senate Committee on Governmental Affairs Permanent Subcommittee on Investigations Washington, D.C. 20515-6115

Dear Chairman Levin and Senator Collins:

In light of your recent hearing in which you examined certain Enron-related structured financings, we thought you might be interested in steps Citigroup is taking to ensure that the balance sheet effect of structured financings is transparent to investors. These measures, together with an announcement that Citigroup will begin expensing options in January, are set forth in the enclosed letter from Sandy Weill to Citigroup employees.

Sincerely yours, Sincerely yours, Jane C. Sherburne fee

Jane C. Sherburne

Enclosure

Permanent Subcommittee on Investigation EXHIBIT #192j



To: All Employees

From: Sandy Weill

Date: August 7, 2002

Re: Progress Report

In my last letter to you, I told you we were reviewing and would continue to review, our business practices to ensure they adhere to the new standards that are emerging and that we continue to be a leader in defining and adopting higher standards. As I described, recent events have pointed out two key lessons: we must do everything we can to identify, eliminate or manage conflicts of interest—real or perceived—as they arise, and we need constantly to strengthen transparency through meaningful disclosure. As the financial services industry gets increasingly complex, we need to reemphasize these basic values.

As you know, we are changing the way we do research and taking the lead to build stronger walls to separate research from investment banking. By being the first firm to voluntarily embrace the Spitzer principles, we have precluded investment bankers from having any say in analyst compensation and previewing reports. We also called on regulators to pass rules that would preclude analysts from going on investment banking pitches and road shows. And we were the first firm to voluntarily adopt the SEC's proposal for analysts to certify that the views expressed in their research accurately reflect their personal views and that they have not been compensated, directly or indirectly, for expressing a specific recommendation. The sooner these reforms are adopted as industry-wide rules, the better.

Also, I cannot over-emphasize the importance we place on our senior management's "blood oath" commitment to hold % of any stock or options we receive for as long as we're running the company. This is the toughest Stock Ownership Commitment in the corporate world today. Because we are committed to the long-run health of our company, we are constantly looking for ways to run the company better. With that in mind, today, I wanted to discuss with you four important new developments.

Affirming our SEC Filings

Today, our CFO Todd Thomson and I signed an oath certifying the accuracy of the disclosure in our financial reports. It is only right that CEOs and the company's most senior financial officer stand behind their companies' financial disclosures and therefore we welcomed the opportunity to demonstrate our confidence in the integrity of the disclosures we provide.

Expensing Options

Beginning in January, we will account for all stock options for management, employees and members of our Board as an expense. Investors have made clear that they want options accounted for in this manner, and we at Citigroup continue to place a high priority on our responsibilities to our shareholders. For 2003, we estimate the impact of this decision will be approximately \$.03 per share and when fully phased in over the next five years, we estimate the impact will be approximately \$.06 per share.

New Board Committee on Governance

Our Board has decided that we should create a new Board level committee to focus on corporate governance. All of the members of the new committee will be independent directors. As you may know, today, both the Personnel, Compensation and Directors Committee and the Audit Committee of the Board are 100% comprised of independent directors. This new committee strengthens our commitment to the highest standards of corporate governance.

New Initiatives in our Structured Finance Business
While it is the responsibility of each and every corporation to ensure that its financial statements fairly represent its true financial condition and of its auditors to provide an independent verification of the financial statements, unfortunately, recent events suggest that these safeguards have not always worked as they should. The industry's practices need to change rapidly and we want to be a leader in defining these new higher standards. We support the various legislative and regulatory initiatives designed to increase transparency.

At Citigroup, we are committed to greater transparency in the disclosure of structured finance transactions and we are answering the call from Washington and from investors by adopting strong initiatives ourselves.

Quite simply, if a company does not agree to record a material financing as debt on its balance sheet, Citigroup will only execute the transaction if the company agrees to publicly disclose its impact to investors.

Starting immediately, we will only do these transactions for clients that agree to make prompt disclosure of the details of the transaction including management's analysis of the net effect the transaction has on the financial condition of the company, the nature and amount of the obligations, and a description of events that may cause an obligation to arise, increase or become accelerated. In addition, we will only do these transactions for clients that agree to provide the complete set of transaction documents to their chief financial officer, chief legal officer and independent auditors. We believe our new policy will encourage companies to provide greater transparency than currently required by law and help restore investor confidence in our financial markets.

For Citigroup itself, our second quarter 10 Q already goes beyond legal and regulatory requirements in providing enhanced disclosure of Citigroup's securitization activities. Going forward, we will, of course, follow the same practices we are asking our clients to follow.

Citigroup has always strived to be at the forefront of progressive industry change. I believe that the actions we are taking in these four key areas underscore our commitment to transparency, accountability and full disclosure to the investment community.

We continue to review practices and policies and take action to make changes where appropriate. And of course, I will continue to keep you informed. I continue to deeply believe in the future of our company and, on behalf of management and the Board of Directors, let me reiterate how proud we are of your integrity, commitment and high performance. Thank you for your angoing support.

ENRON CAPITAL & TRADE
RESOURCES

To: Distribution-

From: Greg Whiting

Subject Prepaid Hydrocarbon Companies

Interoffice Memorandum

Department North American Organization

Date: August 22, 1997

Overview

This memo is intended to provide an overview of the procedures for a legal entity established to own certain prepaid oil and natural gas forward sales contracts.

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What is a Prepaid Contract

A Prepaid Contract is a transaction through which ECTR is prepaid by a third party for future oil/natural gas deliveries. The counterparty in these transactions is typically a large bank. The term ranges from 1 - 5 years.

Purpose of Prepaid Contracts

The purpose of the Prepaid Contract is to provide cash flow to Enron Corp in order to meet its cash flow objectives. They are not intended to be income generating transactions.

Accounting for Prepaid Contracts

1. Company Setup

Before a prepaid contract is closed, it needs to be determined whether a new legal entity should be created or one of the current prepaid legal entities should be reused. If a new legal entity is to be established several items is process. They

- Have the new corporate entity given a name and Co. # Have a bank account established through Corporate Treasury
- Have an MSA company established through the Control Group Have MSA access granted to responsible accountants
- Have an A/R company established through the Control Group Have the chart of accounts established for the GL through the Control Group

- Have the ECT Legal Dept issue the stock certificate
 Have Taxpac established through Corporate Tax Dept
 Notify the ERMS book administrators and provide them with an amortization schedule for the
- Provide a copy of the discount amortization schedule to ECTR Cash Flow Group

Note: These items should be completed one week prior to the anticipated closing date of the deal.

2. Monthly Activities

Each month, the Prepaid Company must go to the market and purchase the hydrocarbons necessary to fulfill its contractual obligation to the counterparty (Long term supply contracts are also used to provide these hydrocarbons). The responsible accounting group should receive invoices, verify, and initiate the payment for these hydrocarbons. This group books these invoices to the appropriate payable account and insures that the coding on the check request/wire transfer from will lead the namely. form will clear the payable.

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EC 001537017

Form 000-469-1 (7/92)

Permanent Sabcommittee on Investigations EXHIBIT #193a

Page 2

From time to time, traders feel that they have an opportunity to make a margin on trades and will use the prepaid companies to house these trades. The responsible accounting group should treat any purchases as stated in the above previous paragraph. For any sales, an invoice should be prepared, booked to the appropriate receivable account, and sent to the customer for payment. When payment is received it is the accounting group's responsibility to make sure the payment is applied to the correct receivable account and customer.

ERMS accounting will be responsible for booking a swap with the prepaid company to move any positive or negative gross margin to ERMS.

The gross margin of these companies should always be very close to zero. A simple test is as follows:

Sales (4921 or 4830) + Cost of Sales (8053 or 8000) + Swaps (4922) = 0

Note: The numbers in parentheses represent the account major for the respective categories.

ERMS accounting will also be responsible for the amortization of the deferred asset created by the discount associated with the cash flow received. For example, if the gross amount of the prepay is \$200M and discounted cash received is \$150M, the discount to be amortized is \$50M.

Accounting Entries for Prepaid Hydrocarbon Transactions - Setup

刊士

Entries to be made on the Prepaid Hydrocarbon Co's Books

1. Original receipt of cash:

(Cash) 1310-999 (Misc Exp) 4265-999

XXXX XXXX

(Sales)

4921/4830

XXXX

This entry shows the application of cash for the transaction fee and prepaid sales income.

2. Swap the value of the prepaid sales to Co. 364 (ERMS):

(Swap Income)

4922-364 XXXX

(Interco, A/R)

1460-364

XXXX

Entries to be made on ERMS's Books

1. Receipt of Hydrocarbon revenue swap from the Prepaid Hydrocarbon Co.:

(Interco, A/R) (Swap Income) 1460-AAA 4922-AAA

XXXX

XXXX

2. Book the discount to be amortized over the life of the transaction:

(ST MTM Liability) (LT MTM Liability) (MTM Income) 2420-310

XXXX

4923-999

XXXX

EC 001537018

The balance sheet side of this entry must be divided between LT and ST.

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Page 3

3. Input the value of the Prepaid transaction liability into the appropriate risk book:

 (MTM Income)
 4923-999
 XXXX

 (ST MTM Liability)
 2420-310
 XXXX

 (LT MTM Liability)
 2530-310
 XXXX

This entry will be made by the accounting person responsible for booking MTM income for the applicable risk book. Again, the balance sheet accounts must be divided between LT and ST.

Accounting Entries for Prepaid Hydrocarbon Transactions - Monthly Entries

Entries to be made on the Prepaid Hydrocarbon Co's Books

1. To record the purchase of hydrocarbons to fulfill the contract and accrue the payable:

(Purchases) 8000/8053 XXXX (Acct. Payable) 2320-100 XXXX

2. To record the swap from the Co. 364 risk book to cover the cost of purchasing the hydrocarbons:

(Interco. A/R) 1460-364 XXXX (Swap Income) 4922-364 XXXX

Entries to be made on Co. 364

1. Swap the annuity value from the risk book to the Prepaid Hydrocarbon Co.:

(Swap Income) 4922-AAA XXXX (Interco. A/R) 1460-AAA XXXX

2. Amortize the Prepaid transaction discount:

(MTM Income) 4923-999 XXXX (ST MTM Liability) 2420-310 XXXX

3. Reclass the first month of LT discount to the ST discount account:

(ST MTM Liability) 2420-310 XXXX (LT MTM Liability) 2530-310 XXXX

4. Record the monthly annuity value rolling out of the risk book:

(ST MTM Liability) 2420-310 XXXX (MTM Income) 4923-999 XXXX

NOTE: This entry will be made by the person responsible for booking MTM for the risk book.

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Page 4

5. Reclass one month of LT liability to the ST liability to replace the current month rolling off:

(LT MTM Liability)

2530-310 2420-310 XXXX

NOTE: This entry will be made by the person responsible for booking MTM for the risk book.

Miscellaneous Notable Items

An amortization schedule needs to be prepared for the discount associated with the prepayment. This schedule needs to be provided to the ERMS book administrators and to the ECTR Cash Flow Group.

In order to reconcile the Daily Position Report (DPR) to the general ledger for the applicable risk book the amount of the unamortized discount must be subtracted from the DPR (the traders use the DPR to judge their income position). This is due to the fact that these transactions are undertaken for cash flow purposes, therefore the traders are not responsible for the cost of obtaining the funds (the discount). When reconciling between the Max Exposure Report, DPR, and General Ledger it will be similar to the following:

Max Exposure + Unamortized Discount = DPR

DPR - Unamortized Discount = GL

The intercompany accounts (1460-XXX sl 9) between ERMS and the prepaid hydrocarbon company should never be settled in cash until the term of the prepaid contract has expired. The original balance in these accounts should be the discounted amount of the prepaid to the prepaid companies via the intercompany account. At the end of the prepaid companies via the intercompany account. At the end of the prepaid term, a cash settlement needs to be made between the ERMS and the prepaid company to clear any remaining balance. This remaining balance represents ERMS traders profit or loss during the term of the prepaid rement. If the traders lost money, the prepaid company did not receive enough cash to cover the purchases it made and must be reimbursed for this amount. If the traders made money, the prepaid company received more cash than it needed to pay for its purchases and should forward the excess cash to ERMS. For example, Erron receives \$1,000 from XYZ Bank as a prepayment representing 100 BBLS @ \$1,000. If the ERMS traders can purchase the crude at \$9,00/BBL they have made \$1,00/BBL. The entries would be as follows (Please note that this example does not take into effect the discounting of cash flows):

Receipt of Cash (Income Effect = \$0.00)

Prepaid Company.	1310-999 4921-999	\$1,000	\$1,000
	4922-364 1460-364	\$1,000	\$1,000
ERMS:	1460-XXX 4922-XXX	\$1,000	\$1,000
	4923-999 2420-310	\$1,000	\$1,000

EC 001537020

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Page 5

Monthly Entry (Income Effect = \$100.00)

Prepaid Company.	8053-999 1310-999	\$900	\$900
	1460-364 4922-364	\$900	\$900
ERMS:	4922-XXX 1460-XXX	\$900	\$900
	2420-310 4923-999	\$1,000	\$1,000

End of Term Settlement (Income Effect = \$0.00)

Prepaid Company:	1460-364 1310-999	\$100	\$100
ERMS:	1310-999 1460-XXX	.\$100	\$100

Note that the absolute value of the income effect in the example is equal to the absolute value of the balance in the intercompany (1460) accounts before settlement. If the intercompany balance on the prepaid company's ledger is a debit/(credit) balance this denotes that the ERMS traders lost/(made) money on the deal.

This memo is only a guideline. Each deal has its own unique characteristics. Be sure to research any items that do not seem to be applicable to the above explanations.

EC 001537021



Enron Corp Bank Presentation

November 19, 2001

Permanent Subcommittee on Investigations
EXHIBIT #193b

Waldorf Astoria New York, NY PRIVILEGED AND CONFIDENTIAL

Agenda

•	Introduction - What Happened?	Jeff McMahon, Chief Financial Officer
	Enron and Dynegy Merger	Greg Whalley, President & COO
	Business Review	Greg Whalley, President & COO
	Risk Assessment & Controls	Rick Buy, Chief Risk Officer
	Debt Issues	Jeff McMahon, Chief Financial Officer
		Ray Bowen, Treasurer
•	Next Steps	Jeff McMahon, Chief Financial Officer
=	Question and Answer Session	Panel

PRIVILEGED AND CONFIDENTIAL

[[]HON

What Happened?

PRIVILEGED AND CONFIDENTIAL

What Happened?

Current Situation

- Complete loss of investor and creditor confidence
- Management
- Performance of the business
- Financial markets
- No access to capital
- Short-term
- Long-term
- Trade credit markets nervous
- Revolving credit facility matures May 2002 \$1.75B

Current maturities greatly exceed operating cash flow

- Osprey Trust must be defeased September 2002 \$2.6B
- Other bank maturities
- Too much leverage tied to stock price
 - Osprey
 - Marlin
- Equity forwards

RESULT; Enron Has A Liquidity Problem

PRIVILEGED AND CONFIDENTIAL

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What Happened?

Cause

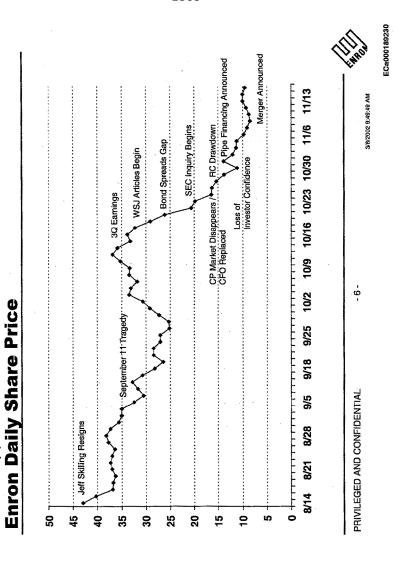
- Series of bad investments
- AzurixBroadband

 - Elektro
 Dabhol
- Merchant investments
- Overlevered
- Failed asset / liability management program
- Large use of Enron stock
- No significant equity issuances
- Related party transactions
- Conflicts of interest
- Slow to address investor concerns
 - Overused
- Possible control failure
- Failure of management to respond quickly

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What Happened?

What Happened? Shareholder Equity Activity 12/99 to 9/01

		WW\$
	December 1999 Shareholder Equity	9,570
Net Income	Net Income - Recurring	2,507
	Net Income - Non-recurring	
	Azurix	(613)
	Broadband Services	(180)
	Investing Activities	(544)
	Other	. 20
	Non-recurring Total	(1,317)
	Net Income Total	1,190
Share Related	Dividends Declared	(786)
	Shares Purchased	(1,559)
	Shares/Contingent Shares Issued to Raptor	866
	Repurchase of Contingent Shares	(1,270)
	Equity Issuances for Business Acquisitions	409
	Equity Issuances for Benefits / Options	1,514
	Share Related Total	(694)
Other	Other Comprehensive Income / CTA	(1,036)
	All Other	460
	September 2001 Shareholder Equity - Estimate	9,490

Subject to restatement pending the filing of Enron 9/30/01 10Q
PRIVILEGED AND CONFIDENTIAL -7-

3/8/2002 9:49:49 AM

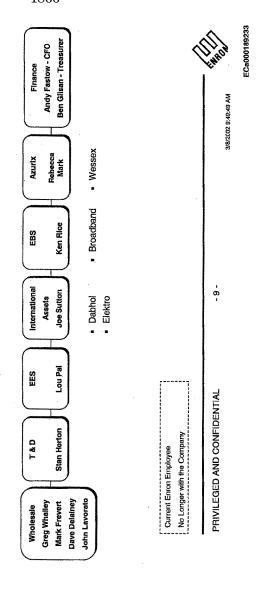
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What Happened? How to Solve It

Issues	∢ l	Actions Implemented
Short-term	•	Revolver drawdown
Get immediate liquidity	•	\$1.0B secured facility
Protect credit rating	•	\$1.5B Northern Natural Gas preferred
	•	Private equity initiative
Medium-term	•	Accelerated asset sale program
Restructure maturities		
Improve rating outlook		
Liquidate finance vehicles		
Sell assets	•	
Long-term	•	Change in management
Rebuild investor confidence	•	Restructured business focus
Asset / Liability management program	•	Engaged corporate governance advisors
Management focus	•	Restructured finance department
Strategic equity solutions		
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What Happened? Historical Organization Chart

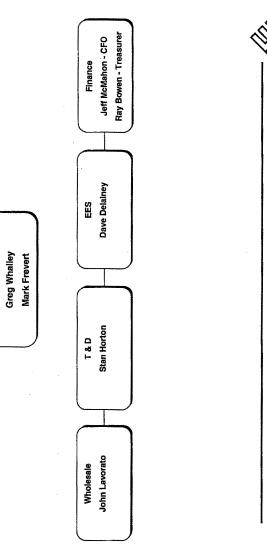
Office of the Chairman Ken Lay Jeff Skilling



What Happened? **Current Organization Chart**

Office of the Chairman

Ken Lay



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What Happened?

Pro Forma Combined Company (\$MM) - 12/31/02E

	Dynegy Standalone	Enron Standalone	Merger Adjustments	Pro Forma NewCo (1)	Asset Sales Sensitivities \$1.08 \$2.08	Sales ivitles \$2.08
Cash & Equivalents	50	1,559		1,579	1,579	1,579
Balance Sheet Debt	4,605	12,087	(1,000)	15,692	14,692	13,692
Off-Balance Sheet Debt	2,105	1,080		3,185	3,185	3,185
Convertible Preferred	•	1,500	(1,500)	,	•	0
Redeemable Preferred	246	903	-	1,149	1,149	1,149
Minority interest	1,200	2,387		3,587	3,587	3,587
Shareholder Equity	5,156	9,500	3,005	17,661	17,661	17,661
Total Book Capitalization	13,312	27,457	505	41,274	40,274	39,274
Adjusted Ratios						
Net Debt / Net Book Cap.	48.30%	44.80%		43.80%	42.30%	40.80%
EBITDA / Fixed Charges	4.8x	3.9x		4.5x	4.7x	5.0x
FFO / Fixed Charges	5.4x	3.4x		4.2x	4.4x	4.6x
FFO / Net Debt	25.60%	21.50%		25.30%	27.20%	29.20%

(1) Includes \$500 MM of synergies

Source: Dynegy Presentation -- November 2001 PRIVILEGED AND CONFIDENTIAL

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Enron and Dynegy Merger

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Enron and Dynegy Merger

- #1 wholesale natural gas and power franchises
- Through the Q3, gas sales exceeded 40 Bcf per day and power sales exceeded 500 million megawatt hours
- Principal energy market makers and liquidity providers
 - EnronOnline + Dynegydirect
- Intellectual capital leveraging core asset positions
- Complementary physical and financial capabilities
- Combined revenues exceeded \$200B and \$90B in assets
- Comprehensive energy delivery networks
- Includes more than 22,000 megawatts of generating capacity
- Diverse pipelines and generation assets
- Includes more than 25,000 miles of pipelines

Source: Enron Merger Press Release November 9, 2001

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Enron and Dynegy Merger Transaction Overview

- Stock for stock merger
- Fixed conversion ratio of 0.2685 ENE per DYN share
- Resultant ownership profile ~ Enron 36%; Dynegy 64%
- Dynegy purchased preferred stock for \$1.5B, exchangeable for ENE common stock and convertible into 100% of Northern Natural preferred equity under certain circumstances
- Funded via ChevronTexaco's \$1.5B purchase of preferred stock in Dynegy
- ChevronTexaco's preferred is convertible into common equity of Dynegy at a 5% discount to \$35.966 (the 5-day average price as of November 2, 2001) per share
- Commitment by ChevronTexaco to infuse an additional \$1.0B upon close of the merger

This slide is intended only as a summary of the definitive documents to the Merger Agreement and the investment in preferred stock by Dynegy

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Enron and Dynegy Merger **Merger Agreement**

- Agreement
- Expected to close in the 3rd quarter of 2002
- Required approvals FERC, HSR, SEC and Enron and Dynegy shareholders
- Termination Provisions
- Material Adverse Change Clause (MAC)
- Litigation Cap
 \$3.5B Cap, MAC clause enforceable thereafter
- Interim Covenants
- May refinance existing debt plus incur an additional \$1.0B in addition to the recent \$1.0B Chase / Citi financing
- Equity
- Enron is entitled to issue up to \$2.0B of new equity
 Or additional equity as necessary to prevent a downgrade below investment grade

These slides are meant as an overview of the principle terms of the Merger Agreement and, as summarized, are qualified as to the terms of the Merger Agreement

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Enron and Dynegy Merger Financial Highlights of the New Dynegy

- Significant balance sheet strength
- Less leverage with fewer off-balance sheet transactions
- Strong free cash flow to support future growth

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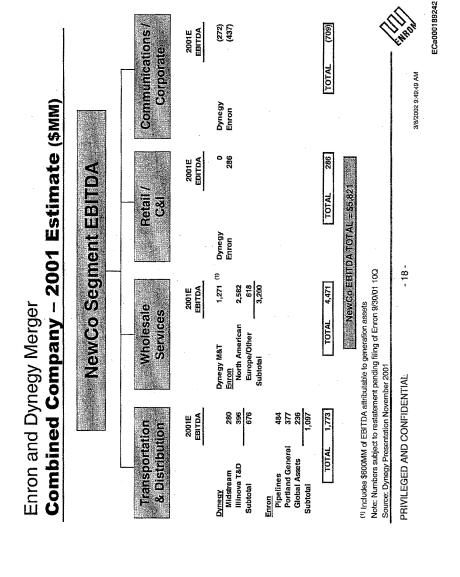
Enron and Dynegy Merger Credit Strengths

- #1 wholesale gas and power industry position
- Diversified earnings stream
- Stable free cash flow from assets (midstream, pipes, T&D)
- · Significant recurring earnings / cash flow (wholesale)
- Profitable C&I / Retail business
- G&A savings
- Chevron Texaco strategic relationship and support
- Commitment to maintain investment grade ratings
- Conservative financial policy and practices

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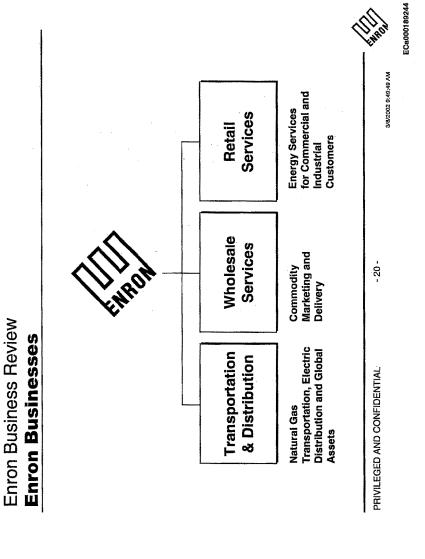
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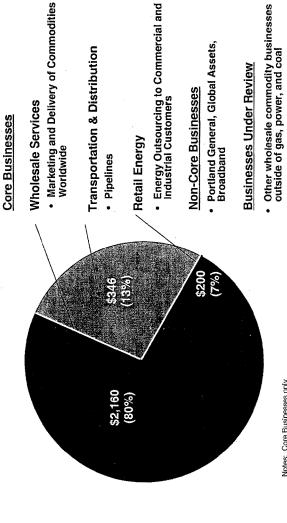


Enron Business Review

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9 Mo. 2001 EBITDA By Core Business (\$MM) **Enron Business Review**



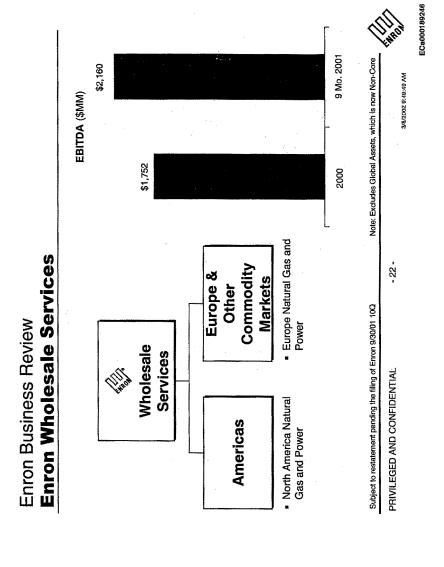
Notes: Core Businesses only
EBITDA = Operating Income + DDA
Subject to review pending the filing of Enron 9/30/01 100

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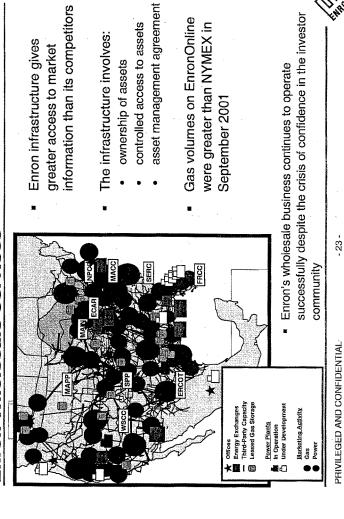
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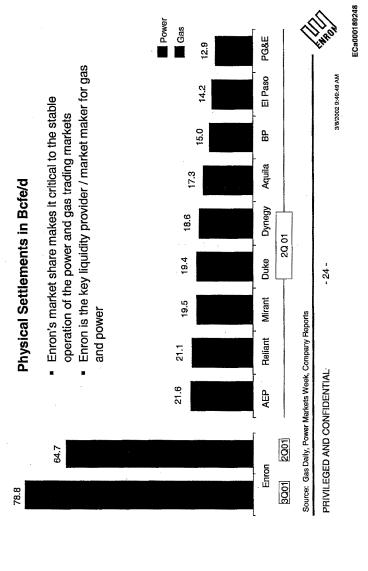
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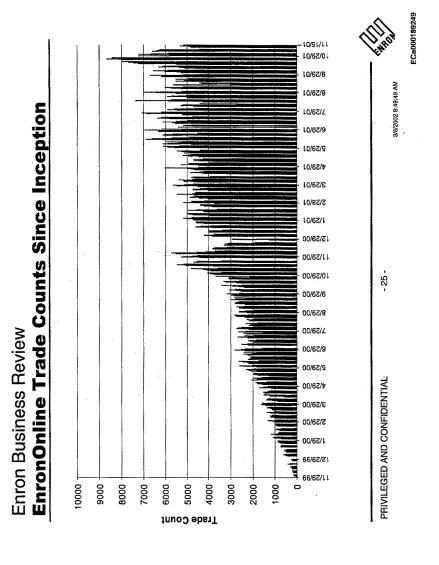
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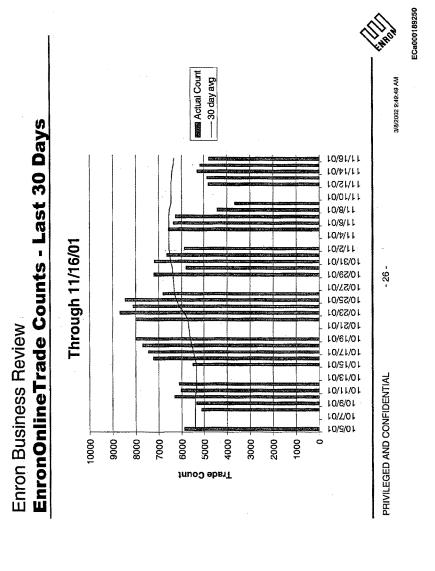
Enron Business Review Enron Wholesale Services



Enron Business Review Enron's Leading Market Position



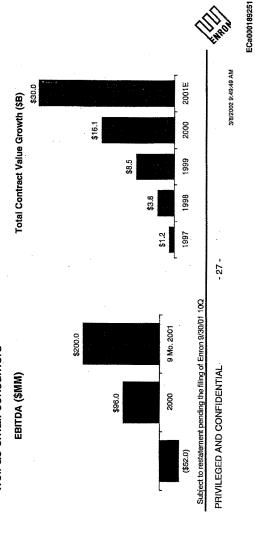




Enron Business Review

Enron Energy Services

- Medium / Long term natural gas and electricity outsourcing supply for clients
 Identification and installation of energy efficient equipment which allows clients to reduce consumption
 - Business is focused in US / UK / Canada
- Target market focused on large consumers (Fortune 2500 companies) as well as small consumers



9 Mo. 2001 3/8/2002 9:49:49 AM 2000 **EBITDA** (\$MM) 1999 1998 - 28 -380 220 -360 320 280 260 240 -200 300 340 **Natural Gas Pipelines** Subject to restatement pending the filing of Enron 9/30/01 10Q **Enron Business Review** Northern Natural Northern Border Transwestern Natural Gas **Pipelines** PRIVILEGED AND CONFIDENTIAL Trailblazer Citrus Transportation & Distribution

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Enron Business Review

Business Issues

- Dabhol
- DPC continues to pursue remedies against Maharashtra State Electricity Board (MSEB), the Government of Maharashtra (GOM) and the Government of India (GOI)
 - Procedural hearings in separate arbitrations against GOM and GOI are scheduled for this month
- Project lenders considering approval of the termination notice to MSEB. DPC is currently forbidden by the Bombay High Court from serving the Termination Notice
- Enron has made its first claim against its political risk policies
- California =
- Edison exposure approx. \$150MM, PG&E gross exposure approx. \$521MM
- Effect of current events on wholesale business
- Liquidity
- Counterparty activity
- Transaction activity

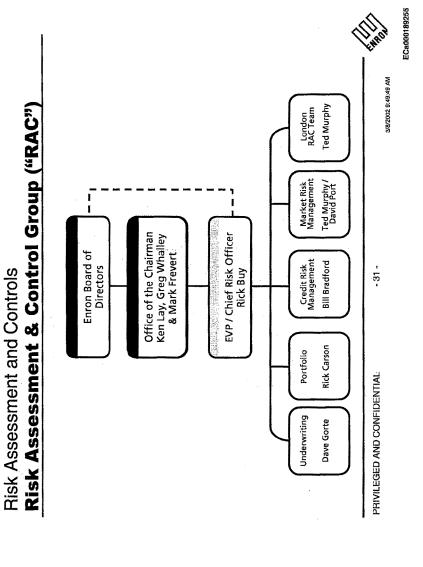
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Risk Assessment and Controls

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Risk Assessment and Controls

Responsibilities

- Market Risk Management
- Identify and evaluate complex global risk issues
- Provide oversight and advice to the risk administration and risk technology processes
- Credit Risk Management
- Credit review of over 7,000 transactions daily and review over 15,000 counterparties worldwide
- Actively monitor and manage portfolio credit exposure associated with worldwide trading activities
- Underwriting
- Ensure that risks for merchant capital transactions are identified and, where possible, mitigated
- Value investments by modeling transaction risks using standard valuation processes
- Portfolio
- Provide due diligence review to identify financial and administrative risks in proposed transactions
- Ongoing asset management and compliance

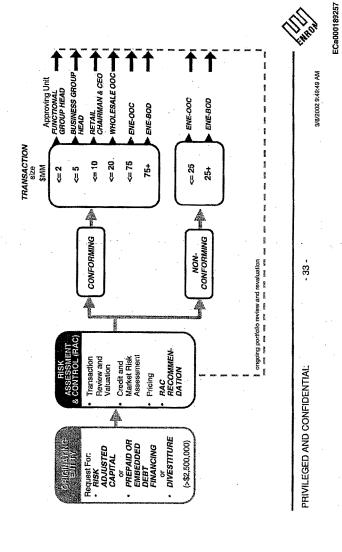
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Risk Assessment and Controls

Transaction Approval Process



Risk Assessment and Controls

What Went Wrong and Remedies

What Went Wrong?

- Large strategic transactions were NOT subject to RAC scrutiny
- Azurix
- EBS • India
- The New Power Company
- RAC's role was to HIGHLIGHT THE RISKS for senior management and
- Board of Director decision making
- Related party transactions approved by the Board of Directors

Remedies

- ALL transactions will be subject to RAC review
- Approval policy expected to be altered at December 2001 board meeting to require Board of Director override of RAC decisions

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Risk Assessment and Controls **Credit Controls**

How Do We Quantify and Control Credit?

- Standard credit analysis
- Strong documentation process
- Monitor and maintain collateral
- Monitor portfolio credit quality
- Perform simulations of price curve movements to estimate how credit exposure and required margin is impacted
- Actively maintain a credit reserve

Actual reserve as of 9/28/2001 was \$583MM

- Maintain credit insurance (base level of protection)
- Systems, systems, systems

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Risk Assessment and Controls Credit Controls – continued

What Are the Issues Facing Us?

- Downgrade to BBB-
- No real issue except confidence factor
- Downgrade below investment grade
- Requires the replacement of cash by L/C's
- Collateral thresholds (credit limits collapse to zero)
- Incremental margin posted under contractual margin agreements would be approximately \$1.6B
- Nervous counterparties
- Calls for margin
- Reduced trading by some players
- Adequacy of cash for margin call and L/C replacement

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Risk Assessment and Controls

Credit Controls - continued What Does Our Credit Portfolio Look Like?

15,000 counterparties including retail

 3,500 active wholesale counterparties Investment Grade 68% Non-Investment Grade 32%

\$15B of net credit exposures

Net exposure by E-Rating (In \$MM)

ψw	Aaa/Aa1	AAA/AA+	111	793
cv	Aa2/Aa3/A1	AA/AA-/A+	1,751	1,615
က	A2/A3	A/A-	1,728	2,196
4	Baa1/Baa2	BBB+/BBB	4,872	4,125
ស	Baa3	-888-	1,034	1,000
9	Baí	88+	1,050	909
7	Ba2	88	976	532
ထ	Ba3	ģ	502	490
တ	B1/B2	B+/B	1,205	1,446
9	B3	пþ	399	330
F	Caa/Ca/C	200	136	237
72		۵	538	790
		-	14,968	14,160

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Risk Assessment and Controls **Counterparty Behavior**

How Are We Doing?

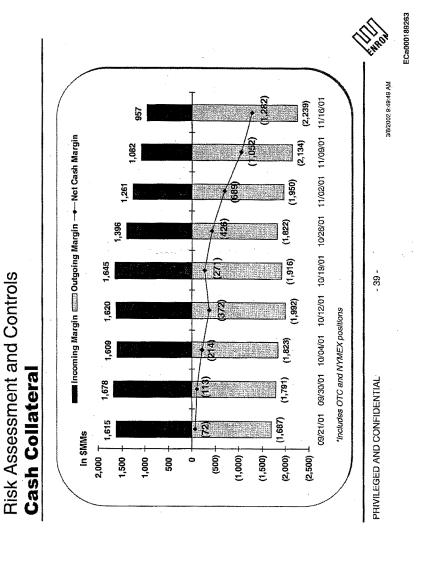
- Cash collateral converted to L/C's is manageable
- Industry's extension of credit to Enron has been reduced but stable
- Effort completed to reduce counterparty exposure to Enron through assignment of trades and "ring" trades
- Cash has been needed to replace credit

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Risk Assessment and Controls

Trading - Are Our Controls Effective?

Backtesting of Enron Corp. aggregate VaR

12 Months Ended November 14, 2001

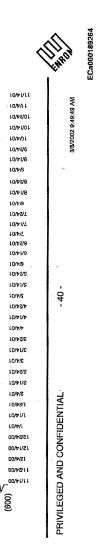
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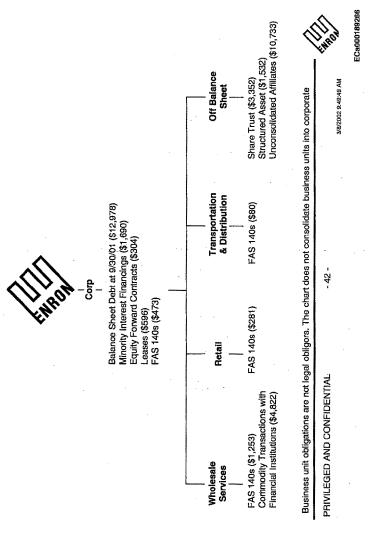


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Debt Issues

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Enron Debt (SMM)

Debt Issues

Debt Issues Enron Corp Recovery Plan

A COLUMN CONTRACTOR CO	1	Minority	Preferred	į	Other	Proforma	Corporate
Current Book	11,977	\$2,387	\$903	\$9,450	\$713	25,430	Revolver LFC
Pipeline Financing Draw on RC less CP Q/s	\$750			-			
Dynegy Preferred Private Equity Assent Sales	(\$1,500) (\$500)			\$1,500			
Contracted 4 Other Anticipated	(\$3,730) (\$1,850)			(\$200)			
Securitization Potential Exposure Osprey 2 Osprey Equity FAS 140e	\$395 \$569 \$325		* *	(\$855) (\$774) (\$1,000) (\$117)	•		
Committed Stock Repurchases	\$648			(\$648)			
Potential Equity Reduction International Assets Broadband Networks	177			777 (\$600)			
Revised Total	\$8,084	\$2,387	\$903	\$7,256	\$713	\$19,343	20%
	Assumes 1.0x PAB multiple for Wessex 2 Assumes Caprey assets worth 75% of boo 3 BVS debt / (EVS debt + Perferred Stock+ She 4 ricludes assets sales plus debt assumption 5 (BVS debt + Chher Obligations) / Total Capital 6 Beginning debt balance less cash	Ox RAB multiple sprey assects VS debt + Presets sales plu Other Obligation but balance leg	Assumes 1.0x PAB multiple for Wessex Assumes Ceprey assets worth 75% of book value less Bron PBS cets (CBS debt + Perlaned Stock + Shareholder's Equity) Prolides assets sales plus debt assumptions (PBS debt + Other Obligations) / Total Ceptial Beginning debt balance less cash	book value Sharehold ttons pital	s less Enron debl er's Equity)	Assumes 1.0x PAB multiple for Wessex Assumes Ceprey ascets worth 75% of book value less Biron debt obligations included in beginning debt bai. B/S debt / [B/S debt + Preferred Stock + Shareholder's Epulty) includes assets assets pace plut ebt assumptions B/S debt + Chret Obligations) Total Capital Beginning debt balance less cash	n beginning debt beli

Subject to restatement pending the filing of Enron 9/30/01 10Q

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Debt Issues

New Facility Terms and Conditions

(\$550MM) (\$450MM) Transwestern Pipeline Company Northern Natural Gas Company Borrower:

Enron Corp **Guarantor:**

Secured Revolving Credit Facilities Facilities:

General Corporate Purposes Use of Proceeds:

364 days after the Closing Date Maturity: Provides for increase of \$200MM Accordion Feature:

Capital Stock of Borrower Security:

Unsecured subordinated note of Enron Corp

Tangible Net Worth \$750MM for both borrowers All assets of Borrower

Covenants:

Corp. Guarantee – reflects revolver (maximum debt-to-capital 65%)

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Debt Issues

Northern Natural Gas Preferred

- Dynegy purchased \$1.5B of NNG Preferred on November 13, 2001
- Dynegy has the option to purchase equity of NNG if merger agreement is terminated

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Debt Issues Private Equity

- Potential structure
- Transwestern preferred similar to Northern Natural Gas
- Timing
- Prior to year-end
- Sources
- Traditional private equityStrategic private investors

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Debt Issues

Estimated Asset Sales through Year-End 2002

	Cash Flow in (SMM)	expected Sale Date
Contracted		
EGEP India	330	Dec-01
CEG Rio	250	Dec-01
EcoElectrica		Dec-01
Portland General (1)	1) 1,800	2nd Half 02
Total	2,630	
Anticipated Sales		a. 11 -00
Enron Wind		1st Half 02
SK Enron		1st Half 02
Gaspart		1st Half 02
Other International		2nd Half 02
Other Merchant		Year 2002
Total	1,850	
Total	4,480	,

(1) In addition, \$1.1B of debt reduction on consolidated balance sheet

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Debt Issues Debt Maturities Through 2002 (\$MM)

	1002 43	A1 2002	42 £002	CEO ECODE.	
Current CP	230	349	•	•	•
Balance Sheet Debt	25	27	2,125	163	1,000
Preferred Stock	1		•	•	•
Minority Interest	069		ı	•	•
Structured	35	41	33	2,780	32
Securitizations / FAS 140s	22	379	540	190	309
Equity Forward Purchases	173	,	ì	131	
Leases	=	22	308		49
Commodity Transactions	274	557	213	150	314
	1,490	1,410	3,220	3,414	1,662
TOTAL THROUGH 2002	11,196				
Major Maturities					
Current CP	230	346	-		
Rawhide	069				
Revolver			1,750		
New Enron Building			285		
Osprey				2,436	
Pipeline Financing					1,000
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					0.0004000400

Debt Issues Debt Maturities 2003 – 2005 (\$MM)

	2003	2004	2002
Balance Sheet Debt	1,551	2,054	2,611
Preferred Stock	•	103	•
Minority Interest	ı	200	200
Structured	1,053	162	179
Securitizations / FAS 140s	193	379	88
Equity Forward Purchases		. !	•
Leases	46	ნ	149
Commodity Transactions	607	1,364	840
	3,450	4,575	4,367
TOTAL 2003 - 2005	12,392		

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Debt Issues Cash Flow Summary – Based on Preliminary 2002 Plan (\$MM)

	-				24	
	04 ,01	01,05	20, 20	03 ,05	04 ,05	Total '02
Cash Flow from Operations	200	750	750	750	750	3,000
Staff Reduction Expense	(100)			,	•	•
Capital Expenditures	(282)	(243)	(253)	(194)	(176)	(866)
Sale of investments	830	675	989	465	1,925	3,650
Amortization of Debt and Other Obligations	(2,325)	(1,410)	(3,220)	(3,414)	(1,662)	(9,706)
Collateral Activity	(750)	*			-	
Pipeline Financing (net)	750	,	÷	,		٠
Dynegy Preferred Equity	1,500			. • •	,	٠
Private Equity	500				·	,
Surplus / (Shortfall) Cash Balance - Beginning of Pertod ⁽¹⁾ Scheduled Remaining Cash	613 1,00,1 1,614	(228) 1,614 1,386	(2,138) 1,386 (752)	(2,393) (752) (3,145)	(3,145) (2,308)	(3,922) 1,614 (2,308)
Adjustments: Proformar/Rollover Bank Meturites FAS 140s Rollover Copey Manuarity Anticeder Copey Manuarity Anticeder Rome internal Cast Between	920	349	2,035	2,437		2,384
***************************************	1000	2,000	4,004	2,390	2,425	2000

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(1) Cash in Q4'01 is 9/30/01 balance.

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Debt Issues Expiring L/Cs Under Uncommitted Lines (\$MM)

As of Nov 15 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Total
Corp LC Instruments	262	18	8	88	9	999
EOTT LC Instruments	156	61				158
Trade LCs	114	. 82	F	19		172
Total per Quarter	532	214	101	108	94	995

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Debt Issues Minority Interests

Rationale

Cost effective financing and favorable balance sheet impact

Where on the Balance Sheet?

minority interest

Deal Name	Asset Description	Total Funded Amount (\$MM)	Maturity Date
Rawhide	Backstop credit facility	069	Mar-03
Zephyrus	Preferred interest in Enron receivables	200	Nov-05
Choctaw	Preferred interest in Enron receivables	200	May-04
TOTAL		1,690	

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Debt Issues

Minority Interests - Rawhide

- Enron demand Loans no longer Permitted Investments following downgrade by S&P to BBB-. The demand loans are an inter-company obligation and therefore no cross default to the Revolvers.
- Failure to repay the demand loans was a Termination Event which has started the 9 business-day Purchase Option Period (to November 26, 2001) and is an event of default on the inter-company loan from Sundance to Ponderosa.
- Extension Requested to allow time to absorb information from the bank meeting and to develop an acceptable restructuring plan
 - Extend the start of the Liquidation Start Date to December 14, 2001.
- Agree to not pre-pay any debt not scheduled to mature during the extension period

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Debt Issues

Structured Financings - Share Trusts - Osprey

- Purpose
- Deconsolidation of non-core business
- Bridge for sale of non-core assets in an off-balance sheet manner
- Capital Structure
- \$2,436MM of 144a notes held by investors
- \$220MM of certificates held by institutional investors and LJM 2
- Repayment
- Enron obligation to pay when due:
- Enron Mandatory Convertible Preferred Stock
- Enron Remarketing Agreement
 - Sales of assets
- Enron obligation to top off
- Trigger Event
- An Enron senior unsecured rating below Baa3 or BBB- concurrent with an Enron Corp stock closing price below \$59.78/share

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Debt Issues Osprey Major Assets

	Wnitewing Book Value	
Asset	9/30/01 (\$MM)	
International		
European Power Projects		
Sarlux (45% ownership)	353	
Trakya (22% ownership)	112	
Nowa Sarzyna (50% ownership)	17	
Arcos Turbines (100% ownership)	186	
Total Europe	999	
South American Gas Distribution		
Elektro (24% ownership)	480	
Promigas (43% ownership)	156	
Total South America	636	
Domestic	- ·	
Merchant Assets	561	
Yosemite I, II Certificates	52	
American Coal Senior Note	11	
EES Joint Venture	53	
Canadian Turbines	88	
Other	7	
Total Domestic	789	
TOTAL OCCUBEY ACCETS	600	
I CIAL COTREI AGGELG	\$ 2,033	

Debt Issues Osprey Sensitivity Analysis As of 9/30/01 (\$MM)

100% 75%	2,656 2,656	2,093 1,570 563 1,086	(251) (774)	(1,251) (1,774)	
age		rant			ice \$10
Asset Value Percentage	Osprey Debt & Equity	Asset Value Merchant Cash exposure	P/L exposure 1	Equity exposure	¹ Assumes ENE share price \$10

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Debt Issues

Structured Financings - Share Trusts - Marlin

- Purpose
- Allowed for the funding of the Wessex acquisition on a non-dilutive off-credit basis to Enron
- Capital Structure
- \$915MM in notes held by 144a investors
- \$125MM in Trust Certificates held by institutional investors
- Repayment
- Enron obligation to pay when due:
- Enron Mandatory Convertible Preferred Stock
- Enron Remarketing Agreement
- Sales of assets
- Enron obligation to top off
- Trigger Event
- An Enron senior unsecured rating below Baa3 or BBB- concurrent with an Enron Corp stock closing price below \$34.13/share

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Debt Issues Maritin/Azurix Value Analysis As of 9/30/01 (\$MM)

ENE Investment in Marlin & Azurix

AZX Asset Value Azurix Debt (9/30/01) Marlin Debt Marlin Repayment Exposure Add Back ENE Preferred ENE Top Up Obligation ENE P/L Exposure	sset Value
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Debt Issues FAS 125/140 and TRS Structures

- Transaction rationale:
- Bridge for ultimate sale of non-core assets
- Generates cash flow for reinvestment
- Where on the balance sheet:
- Out of the money portion of Total Return Swap value recognized in Price Risk Management Assets/Liabilities

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Debt Issues FAS 125/140 and TRS Structures (\$MM)

		Lotai		
Deal Name	Asset Description	Funded Amount	Total Asset (1) Value	Asset (1) Value Maturity Date
Hawaii	Multi-asset credit facility	455		November-02 July-02
Riverside	Equity in Teesside Power	92	**	January-02 December-13
ETOL	Equity in Teesside Operations Ltd.	291		June-03 January-04
Cerebus	Equity in EOG shares	517	-	June-02
Service Co.	Equity in Service Co.	52		September-03
Nikita - EOTT	Equity in EOTT	80		September-03
Comhusker	Equity in QF Powerplant	222		March-02
Motown	Equity in QF Powerplant	63		March-02
Slapshot	Canadian Newsprint Mill	358		30-ann
TOTAL	5000	S 2,087	792.1	

As of 9/30/01 (1) Valuations based on RAC or publicly traded assets

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Debt Issues

Commodity Transactions with Financial Institutions

- Rationale
- Asset / Liability management of the commodity risk portfolio
- Monetize profit on commodity risk portfolio and transfer associated credit risk
- Contracts
- Monetize future cash flow and transfer counterparty credit risk to lenders
- Monetize future cash flow with lenders and Enron buys credit protection on counterparties
- Monetize future cash flow with lenders and buy credit protection on Enron's counterparties
- Where on the Balance Sheet?
- Reported in Price Risk Management Liabilities

What I

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Note: GBP 1.00 = USD 1.4761 and EUR 1.00 = USD 0.9113

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Debt Issues

Commodity Transactions with Financial Institutions

Funding Source		Bank - amortizing	Bank - non-amortizing	Bank - amortizing	Bank - amortizing	Bank - amortizing	Bank - amortizing	Bank - amontizing	Bank - amortizing			Bank - amortizing			Bank - WA	Bank - non-amortizing	Bank - amortizing	US Dollar Yosemite I - non-amortizing	US Dollar CLN I - non-amortizing	US Dollar CLN II - non-amortizing	Sterling CLN If - non-amortizing	Euro CLN II* - non-amortizing	Sterling Yosemite II* - non-amortizing		"Amounts stated in USD
Current Amount (\$MM)		19	350	46	308	533	289	8	528	1,846		211	211		168	. 150	75	908	475	475	162	155	305	2,765	4,822
Term		Dec-01	Mar-02	Jun-02	Jun-04	Jun-05	Nov-05	May-08	Apr-11	Total Gas:		May-12	Total Power:		Dec-01	Oct-02	Nove02	Oct-04	Jul-05	Apr-06	Apr-06	Apr-06	Feb-07	Total Crude:	Total:
	Gas	Gas 1	Gas 2	Gas 3	Gas 4	Gas 5	Gas 6	Gas 7	Gas 8		Power	Power 1	•	Crude	Crude 1	Crude 2	Crude 3	Crude 4	Crude 5	Crude 6	Crude 7	Crude 8	Crude 9	-	

Debt Issues Rating Agency Update

Outlook	Review for Downgrade	Negative Watch	Evolving
OI			
	ВааЗ	BBB-	-BBB
	Senior Unsecured Debt	Senior Unsecured Debt	Senior Unsecured Debt
	Moody's	Standard & Poors	Litch

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Debt Issues 8K Disclosure

- Restatement
- JEDI LJM 1
- Accounting error \$1.2B
- Related party transactions

- LJM 1
 LJM 2
 ChewCo
- Special committee investigation
- SEC investigation

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Debt Issues Restatements - Net Income (\$MM)

	1997	1998	1999	2000	1999 2000 Q1 2001 Q2 2001 Q3 2001	Q2 2001	Q3 2001
Net income as reported	105 (1) 703	703	893	979	425	404	(618)
Consolidation of JEDI and Chewco Consolidation of LJM1 subsidiary	(45)	(107)	(153) (95)	(91)	3 1	1 1	t ;
Raptor equity adjustment	•		<u>'</u>	į '		•	
Frior year proposed auxii adjustments and reclassifications	(51)	(9)	(2)	(33)	11	ß	(17)
Net income restated	o,	290	643	847	442	409	(635)

(1) After effect of significant contract restructuring charge totaling \$463MM (after tax)

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Debt Issues Restatements - Total Assets (\$MM)

Total assets as reported 22,652 29,350 33,381 65,5 Restatements: Consolidation of LED and Chewoo 447 160 187 (1 Consolidation of LMR1 subsidiary Consolidation of LMR1 subsidiary (222) (222) (1)	22,552 29,350 33,			
Ohewoo 447 160 187 (222)		81 65,503	67,260	63,392
bsidiary (222)	447 160	37 (192)		•
	1	- (22)	•	•
	adjustment	. (172)	(1,000)	(1,000)
Prior year proposed audit adjustments	audit adjustments	(36)	(4 240)	740

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Debt Issues Restatements - Debt (\$MM)

	1997	1998	1889	2000	Q1 2001	02 2001
Debt as reported	6,254	7,357	8,152	10,229	11,922	12,812
Consolidation of JEDI and Chemco	117	261	982	828	. • 1	.• '
Raptor equity adjustment	i •				•	• •
adjustments and reclassifications	·	.	.		٠	-
Debt restated	6,965	7,918	8,837	10,857	11,922	12,812

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Debt Issues Restatements - Equity (\$MM)

1	1997	1998	1999	2000	17001	Q2 2001
Equity as reported Restatements:	5,618	7,048	9,570	11,470	11,727	11,740
Consolidation of JEDI and Chewco	(292)	(391)	(540)	(810)	. 8	. 8
Raptor equity adjustment		•	<u></u>	(172)	(1,000)	(1,000)
Finor year proposed audin adjustments and reclassifications	(21)	(23)	(128)	(242)	(586)	
Equity restated	5,305	6,600	8,736	10,306	10,501	10,811

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Next Steps

0	Old Enron / New Enron	
Öl	Old Enron	New Enron
*	Deal shop mentality	 Liability management focus
	Compartmentalized information	 Open communication
	Black box	 Financial transparency
•	Earnings driven	 Cash driven
•	Asset sales program book value	 Asset sales program market
-	focused	value driven
=	Constant development of new	 Focus on core businesses
	businesses	
•	Related party deals	 No related party deals
		 Focus on achieving successful merger
		•

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Next Steps

- Financings
- Extend Osprey maturity
- Amend pricing
- Raise additional equity
- Extend corporate maturities
- Accelerate asset sales based on current market values
 - Restoration of L/C's
- Amend dividend policy
- Communication
- Restructuring Committee
- Additional lender meetings
- Deal specific conference calls/meetings
- Regular bank conference calls

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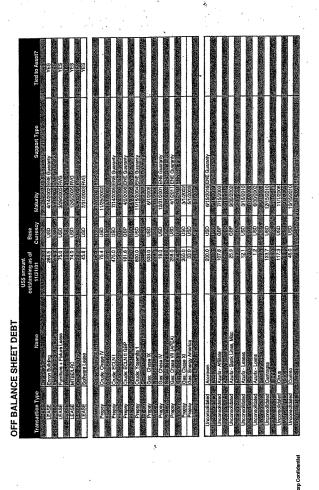
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THRON.

Question and Answer Session

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Permanent Subcommittee on Investigations
EXHIBIT #193c

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Permanent Subcommittee on Investigations
EXHIBIT #193d



Interoffice Memorandum

Bill Brown

Date: November 30, 1999

From: Doug McDowell

Annual Review-1999 Re:

8111.

Per your request, outlined below is a list of my accomplishments for 1999 as well as my goals/objectives going forward.

Accomplishments

Project Yosemite

- \$ 825 MM (5 year-\$ 750 MM Bond issuance, \$ 75 MM Equity issuance)
- Utilized to create \$ 800 MM of funds flow via a unique prepay transaction embedded within

The transaction should serve as a blueprint for future credit-linked note structures thereby ensuring a permanent refinancing option and/or underwriting option for bank transactions. The structure provides the following benefits:

- Achieves the corporate objective of stretching tenor and removing refinancing and event risk
- Blackbox feature
 - -- Flexibility for substitution
 - Permanent funding for highly structured deals (immediate use is as a long-dated capital markets funding alternative for prepay transactions)
 Maintains existing balance sheet treatment of underlying transactions
- Relieves banks of Enron credit exposure and increases the investor base
- Credit default swap option—No default swaps were allocated through this particular financing as the proceeds were used to fund the prepay; however, the option remains to reduce the prepay and sell default swaps if needed

The prepay structure was also newly created to fit within the Yosemite transaction and is unique in its ability to eliminate or minimize any incremental credit exposure beyond the original notional value of the prepaid swap and thus lowering costs and bank exposure to Enron.

Project Jethro-\$ 500 MM Prepay

Successfully closed a \$ 500 MM prepay transaction with Citibank/Toronto Dominion on June 29, 1999, under a very short timeframe. Ability to utilize a financially settled prepay with a modification to the commodity swap structure provided for savings of \$ 300,000 in transaction costs.

Jethro Extension-\$ 675 MM Prepay

In September 1999, extended and increased the original Jethro transaction as a bridge transaction into Yosemite. Incurred negligible costs with Citibank and minimized costs with TD.

Your Personal Best Makes Enron Best

Communicate- Facts Are Friendly

Form 000-469-E(7/92)

Permanent Subcommittee on Investigations EXHIBIT #193e

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{DATE}

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Worked closely with Craig Clark, Jodi Coulter, Jung Suh, and Catherine Rentz on the Yosemite and Jethro (prepay) transactions and actively provided guidance in order to develop their individual potential. Craig rotated early in the transaction but I believe both Jodi and Catherine did a fantastic job on Yosemite and both are ideal long-term candidates for our group.

Goals/Objectives

Yosemite:

Achieve closing for Yosemite II by the end of the first quarter 2000 Utilize the Yosemite technology to relieve additional bank exposure as well as pursue opportunities to (i) develop the credit default swap market for Enron and (ii) create earnings

Provide senior leadership to other directors and become more actively involved in the recruitment/management of managers/associates/analysts

Pursue senior leadership role in a greater number of transactions in order to pursue the next level promotion to Vice President.

Department:

Thanks,

Doug McDowell

Your Personal Best Makes Enron Best Form 000-489-1 (5/92)

Communicate- Facts Are Friendly

Better, Faster, ECa000078298



Interoffice Memorandum

Bill Brown

Date: November 28, 2000

From: Doug McDowell

Annual Review-2000

Per your request, outlined below is a list of my accomplishments for 2000 as well as my goals/objectives going forward.

Accomplishments

Enron Credit-Linked Notes (August 2000)

- \$ 500 MM credit-linked notes (5 yr term) Utilized to create \$ 475 MM in funds flow

The Enron CLN represented an improvement upon the Yosemite style transaction and created greater transparency/simplicity and thus more liquidity resulting in considerably improved pricing. The transaction priced at approximately 50 bps above a comparable Enron bond. Also, significant savings were generated as the equity was structured such that it only required a charge of 30 bps fee per year (not a spread plus a base rate but an all-in fee only of 30 bps). The other benefits are described in the Yosemite II description. In addition, the transaction was well received in the marketplace and generated tremendous momentum for the Osprey follow-on transaction which subsequently closed in October.

Savings generated on the upfront fees were approximately \$ 1 MM and annual savings of \$ 5 MM were realized due to the favorable structuring of the equity tranche.

- Yosemite II (February 2000)—Joint effort with the London office
 -- 225 MM Sterling transaction (200 MM Sterling Bond issuance, 25 MM Sterling Equity issuance)
- Utilized to create 200 MM Sterling of funds flow via a unique prepay transaction embedded within

The Yosemite I transaction served as the blueprint for this transaction with the added difficulty of a large placement in the Sterling market. The structure provides the following benefits:

- Achieves the corporate objective of stretching tenor and removing refinancing and event risk
- Blackbox feature
- Flexibility for substitution
 - Permanent funding for highly structured deals (immediate use is as a long-dated capital markets funding alternative for prepay transactions)

 -- Maintains existing balance sheet treatment of underlying transactions
- Relieves banks of Enron credit exposure and increases the investor base
- Credit default swap option—No default swaps were allocated through this particular financing as the proceeds were used to fund the prepay; however, the option remains to reduce the prepay and sell default swaps if needed

The prepay structure is unique in its ability to eliminate or minimize any incremental credit exposure beyond the original notional value of the prepaid swap and thus lowering costs and bank exposure to Enron.

Your Personal Best Makes Enron Best

Communicate- Facts Are Friendly

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Other transactions:

Net Works:

Currently acting as the primary finance lead for transactions in Enron industrial Markets. Transactions under review and in process are as follows:

- Falcon—Potential \$ 1.3 Billion acquisition
 Crane—Potential \$ 400 MM acquisition
 Canary—Potential \$ 400 MM acquisition
 MetalsUSA—Potential \$ 400 MM inventory financing plus 20 years inventory management

contract.

The inventory financing should serve as a model for future transactions with other clients.

Overall, responsible for developing the capital structure for the "Paper Company" operations including the specific acquisitions.

Personnel

Worked closely with Craig Clark, Jodi Coulter, and Catherine Rentz on the Credit-linked Notes and Yosemite II transactions and actively provided guidance in order to develop their individual potential. Craig did a great job on the CLN transaction and Jodi and Catherine were both critical in the closing process for Yosemite II.

Goals/Objectives

- Close acquisition financing for the paper business during the first quarter 2000
 Assist in creating financial products for the steel business to obtain access to physical products
 Provide senior leadership to other directors and become more actively involved in the
 recruitment/management of managers/associates/analysts

Thanks,

Doug McDowell



Interoffice Memorandum

To: Barry Schnapper

From: Doug McDowell

Subject: Deal Update

Department: EGF

Date: {TIME \@ "MMMM d, yyyy"}

Barry,

Below is an update of the deals in process:

Yosemite 3

Represents a prepay financing option to be placed in the bond market. My understanding is that approximately \$ 1.4 Billion will be required this year. However, approximately \$ 700 MM may be forthcoming through the contract prepay being negotiated in the UK. The outcome of the UK prepay should determine if we need a prepay in the 2Q or later in

We have received proposals from about eight different institutions and narrowed it down to effectively two structures:

Original Yosemite:

Citibank

Clean Enron

Credit-linked Note:

Citibank, Warburg, BofA

With respect to institutions, the nod would go to Citibank due to its previous experience. By the way, the Warburg structured finance team is very good and has probably invested more time and effort than any of the other institutions. Need to consider them for a "Co-Lead" position.

Key features of each structure are as follows:

Original Yosemite

Bonds effectively sold as Enron credit-linked notes

Black-box structure:

No disclosure of underlying assets to ratings agencies or public

Complete flexibility of substitution subject to Citibank approval

Ability to amend underlying transactions with Citibank only

Ability to refinance underlying transactions without the need to prepay the bonds

- 144A w/out reg rights Ability to term-out prepaid financings
- Modified prepay structure eliminating the need for costs/additional exposure of a third bank for hedging commodity risk
- Ability to closed in approximately 1 month

Issues:

Pricing of basis risk for underlying transactions Complicated prospectus/settlement mechanism

Credit-Linked Note

Respect Form 000-469-1 (7/92) Integrity

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Provides basically the same features of the Original Yosemite structure with the following modifications:

- Expanded investor base/pricing benefits if able to sell as a registered transaction Simplified marketing—able to disclose the permitted investments Simplified settlement mechanism

- Reduced dependence on the swap counterparty (i.e. Čitibank)
- Potential for no equity certificates

issues:

Use of Citibank balance sheet
Potential for Enron as co-registrant
Potential for SEC scrutiny of Enron purpose behind transaction
Probably would take about 4 months (start-to-finish)—may require a bridge—prospectuneeds to be written in plain English

Prepay Revolving Facility

The basic premise is for Citibank to fund a bridge prepay (approx. 180 days) and then purchase Enron credit default swaps from a syndicate group of banks.

Your Personal Best Makes Enron Best Form 000-469-1 (\$192)

Communicate- Facts Are Friendly

Better, Faster, ECa000078302



Interoffice Memorandum

Bill Brown

Date: July 14, 1999

From: Doug McDowell

Mid-year 1999 review Re:

Bill,

Per your request, outlined below is a list of my accomplishments for the first half of 1999 as well as my goals/objectives going forward.

Accomplishments

Project J∉hro--\$ 500 MM Prepay

Successfully closed a \$500 MM prepay transaction with Citibank/Toronto Dominion on June 29, 1999, under a very short timeframe. Ability to utilize a financially settled prepay with a modification to the commodity swap structure provided for savings of \$300,000 in transaction costs.

Project Yosemite--\$ 1.5 Billion Securitization/Default Swap structure

Conceptually defined a structure which will provide for the release of approximately \$ 1.5 Billion in bank capacity for conceptually defined a structure which will provide for the release or approximately \$1.5 billion in bank capacity for future Enron transactions as well as providing an outlet for the substitution of new transactions upon maturity or early termination of existing Yosemite assets. The ultimate transaction should serve as a blueprint for future credit-linked note structures thereby ensuring a permanent refinancing option and/or underwriting option for bank-led or bank-structured transactions. In addition, the introduction of long-dated credit derivatives on Enron credit should prove beneficial going forward as well.

Personnel

Worked closely with Craig Clark, Jodi Coulter, Jung Suh, and Catherine Rentz on the Yosemite and Jethro (prepay) transactions and actively provided guidance in order to develop their individual potential.

Goals/Objectives

Yosemite:

- Achieve financial close by September 1999 Modify the prepay structure as well as the Firefly transaction in order to minimize or eliminate any credit exposure for Citibank and correspondingly lower the cost of executing the Yosemite

transaction

Provide senior leadership to other directors and become more actively involved in the Department:

- recruitment/management of managers/associates/analysts

 Pursue senior leadership role in a greater number of transactions in order to pursue the next
 - level promotion to Viçe President:

Thanks,

Doug McDowell

Your Personal Best Makes Enron Best



Interoffice Memorandum

Bill Brown

Date: June 14, 2000

From: Doug McDowell

Mid-year 2000 review Re:

Bill,

Per your request, outlined below is a list of my accomplishments for the first half of 2000 as well as my goals/objectives going forward.

Accomplishments

Yosernite-2-200 MM British pounds-Closed February 2000-7 yr. Bond financing (Prepay)

Worked with the London team to close an approximate \$ 375 MM bond financing to support a prepay transaction which generated the equivalent amount in funds flow. Yosemite 2 duplicated the structure created in Yosemite 1 and we managed to term out the prepay to 7 years (first time beyond 5 years) with no amortization which helps to relieve the pressure on refinancing in the short term as well as a better match of the underlying PRM assets.

Work-in Process

Yosemite 3-\$ 750~\$ 1 Billion transaction (prepay or FASB 125 takeout)

Have worked with Citi/Solly to modify/improve the structure for both distribution (public vs. private) and improved pricing. Yosemite 1 & 2 were the largest single issuer CLN's ever done and Yosemite 3 will be unique if done as a public transaction. Model may be utilized as a permanent takeout structure for FASB 125 transactions.

Citibank Prepay Revolver (3 yr)

Provides revolving capacity to issue short-dated (180 day) prepaid swaps that could then be refinanced via yosemite or another structure. Fundamentally the structure should work—open question as to whether we need to secure this capacity or not. Use of credit default swaps for syndication could be an effective synthetic syndication tool.

JEDI Unwind

Will potentially result in:

- net retirement of 8 MM shares into treasury stock (improves pro-forma ROE by approximately 0.5% and EPS by approximately \$ 0.01/share and will eliminate forthcoming volatility associated with the Enron stock held by the
- Funds flow treatment of approximately \$ 400 MM
- Take-out structure for jedi assets via FASB 125 will likely represent a model for permanent takeout of other FASB 125 transactions.

Your Personal Best Makes Enron Best

Communicate- Facts Are Friendly

Form 000-489-E(7/92)

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Jedi Unwind *	may be utilized as	a model for other FA	000 (term out of a FA SB 125 assets)	SB 125 for the	Jedi assets which
Yosemite 3: * Department: *	Achieve financial o	lose by September/O	ctober 2000 ors and become more	activoly involv	od in the
оршинет.	recruitment/manag	ement of managers/a	ssociates/analysts		
	Pyrsue senior lead level promotion to	ership role in a greate Vice President.	r number of transacti	ons in order to p	lursue the next
hanks,		. i	•		.,
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ECp000094771

Garberding, Michael Wednessday, June 20, 2001 9:02 AM Bills, Lisa; Quiaintance Jr., Alan; Moon, Eric; Weldon, V. Charles; Shackleton, Sara; Cook, Mary; Clark, Morris; Shahi, Pushkar Deffner, Joseph Citibank Prepay

The following presentation lays out the structure, responsibilities and timing for the \$250 million prepay with Citibank. This transaction is required to finished by the 28 (quarter-end deal). We had initial discussions with Citibank yesterday and should have feedback today on some of the key terms. Please review both the responsibilities and calendar (timing) to make sure the list is complete and the timing is achievable. Please give me a call with any questions. Thanks again for all your help.

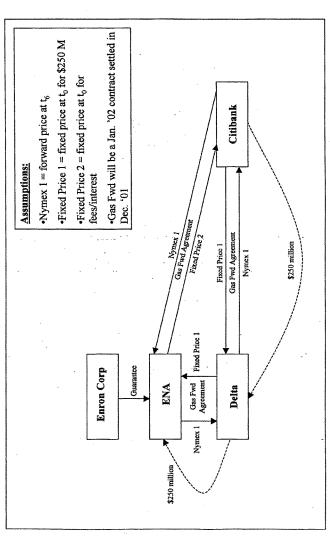
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Permanent Subcommittee on Investigations
EXHIBIT #193f

250 Million Prepay

ECp000094773

\$250 Million Prepay



Citibank Prepay Action Items

Citibank:

- Provide Deal Team Information
- Confirm use of Delta for Swap Co. 7
- Confirm use of outside counsel (Milbank in prior transactions)
 - Confirm no timing to close concerns
- Prepare term sheet/letter agreement:

4.

- Prepay pricing
- Structure (financial swap versus forward)
- Settlement timing
- Confirm Credit Approval for \$250 million

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- Confirm ability and cost to hedge interest rate within Prepay
- Prepare draft/final of Master and Swap Confirm for Delta/Citibank transaction 6.

Enron Prepay Action Items

Enron:

- Prepare first/final draft of confirms including comments on existing Master Agreements with both Citibank and Delta (Sara & Mary)
- Finalize Accounting Review (Alan)
- Financial swap versus forward
 - Tenor of agreement
- Requirements for "prepay book" versus "NYMEX book"
 - Delta review (Swap Co.)
- Finalize Tax Review (Morris)

ω **4**.

- Finalize Interest Rate Structure (Pushkar)
 Rolling hedge (monthly) versus fixed hedge (six-month)
 - Agreement with Citibank on hedging costs
- Timing on Libor curve (closing date)
- 5. Finalize Structure of Prepay (Eric & Charlie)
- Nymex pricing, Libor curve, volumes and payment timing for two swaps (Delta and Citibank)
- Booking trade in system
- Timing on "Mid Settle" value for Jan. contracts (closing date)

ECp00004776

Prepay Timing

SUNDAY MONDAY	MONDAY	i i i i i i i i i i	TUESDAY	WEDNESDAY	THURSDAY		SATURDAY	П
								T
- Kick-off Meeting	- Kick-off	- Kick-off	Meeting	- hitial Feedback	- First Draft of ENA	-Agreementon the		
				From Citibank	Confirms (Noon)	prioing of Prepay		
				-Agreement on	- ENA Comments			
				Structure of Prepay	to Legal (4.00pm)	-		
				and Required Docs	-First Draft of ENA	,		
					Confirms to Citibank			
-Comments on Draft - Final Draft of		-FinalD	raftof	-Transaction finalized -Pre-close Dry Run	- Pre-close Dry Rua	- Transaction closed		.
ofConfirms (8:00am) Con		င်စ။	Confirms	- Citibank confirmation	of Prepay(am)	- Funds transferred		
- Finalagreementon		-Confirm	-Confirmation of	on credit approval	-Set Commodity and	-		
structure of Prepay CrivDelia	-	Citi/Delts	Citi/Delta Confirm	,	Interest Rate Pricing			
-	-				(bm)			

Enron Contacts

0000	025-0420	713-853-7293	713-853-7293	713-853-5167	713-853-5167		345-7621	713-853-3498	713-853-9716
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- 1	Megan Angelos /13-853-042(Amy Rios	Army Rios	Melissa Solis	Melissa Solis		Esmereida Gonzalez 713-345-762	Elaine Brown	Lydia Garza
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740 400 0040	713-406-8012	713-254-3792	713-503-3709	281-352-1086	713-301-0982			713-854-4342	
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COE 2 030 CAT	713-803-1703	713-853-1864	713-345-7731	713-853-0589	713-345-7229	713-853-5620	713-345-7732 713-646-3393	713-853-9199	713-853-5846 713-646-4713
1 1 1 1 1 1	Giobal Finance 713-855-1703 713-846-3602 713-408-8012 877-499-1374	Global Finance 713-853-1864 713-646-3602 713-254-3792	Global Finance 713-345-7731 713-646-3602 713-503-3709 877-240-2641	Manager Gas Structuring 713-853-0589 713-646-2460 281-352-1086	Associate Gas Structuring 713-345-7229 713-646-3460 713-301-0982	Legal	Legal	Director Currency Trading 713-853-9199 713-646-3740 713-854-4342	Tax
	Ulrector	Manager	Director	Manager	Associate	Sr. Director	Sr. Counsel	Director	Director
	BIRS, USA	Garberding, Michael Manager	Quaintance, Alan	Moon, Eric	Weldon, Charlie	Shackleton, Sara Sr. Director	Cook, Mary	Shahi, Pushkar	Clark, Momis

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January 21, 2000

Andrew Walker Milbank, Tweed, Hadley & McCloy, L.L.P. International Square Building 1825 Eye Street, N.W., Suite 1100 Washington, D.C. 20006

Re: Tax Forms and Administrative Matters for Delta Energy Corp.

Andrew:

I hope that your New Year's holiday was enjoyable. I would like to follow-up with you regarding the tax maintenance items we discussed last year for Yosemite I. Based on the withholding analysis we performed, we came to the conclusion that Delta should provide Enron North America with a W-8BEN as well as a W-8IMY. I have attached those forms with this correspondence. It is our understanding that these forms need to be in place prior to April 14, which is the first payment date on the Enron/Delta swap. Also, with regard to Delta's 8832, are you aware of whether that form was filed with the Service? We understand that the latest date on which the form may be filed in order to claim an effective date of November 18, 1999 (Yosemite I closing date) is February 1st. As you may recall, we also discussed filing a Form 8865 with respect to the transfer of \$800 million by Yosemite to Delta under the Delta note. It appears that Yosemite will be required to file the form but it is not entirely clear whether Delta needs to file. The only other issue that requires resolution is the tax and financial accounting responsibilities for Delta. Does Citibank plan to arrange for these services on Delta's behalf? I would very much appreciate your assistance in resolving these outstanding matters. Please contact me if you require any additional information.

Best Regards,

Ann Marie

Permanent Subcommittee on Investigation: EXHIBIT #193g ECa000152535



Interoffice Memorandum

To: Yosemite File

From: J. Brent Vasconcellos

Department: Global Finance Tax

Subject: \$750 Million Yosemite Debt - Recourse v. Nonrecourse

Date: November 26, 2001

FACTS

On November 18, 1999, Enron Corp. ("Enron"), an Oregon corporation, and Long Lane Master Trust IV ("Long Lane"), a Delaware statutory business trust, formed Yosemite Securities Trust I ("Yosemite"), a Delaware statutory business trust. Enron and Long Lane each contributed \$37.5 million in cash to Yosemite in exchange for certificates of beneficial interest that bear an annual yield of 11% (the "Certificates"). Yosemite then issued \$750 million worth of Linked Enron Obligations ("LEOs") to qualified institutional buyers in a Rule 144A offering under the Securities Act of 1933. On December 30, 1999, Whitewing Associates, L.P. ("Whitewing") purchased a portion of Enron's Certificates for a \$33.750 million face amount plus accrued but unpaid interest. After this purchase, the Certificates were owned 50% by Long Lane, 45% by Whitewing, and 5% by Enron.

The LEOs are supported by Yosemite's \$25 million note receivable from Enron (the "Enron Note") and an \$800 million note receivable from Delta Energy Corp. (the "Delta Note" and "Delta", respectively), a Cayman Islands exempt limited liability company. The Delta Note and the Enron Note are Yosemite's sole assets. The Enron Note is an unsecured recourse obligation of Enron. Yosemite's right to repayment under the Delta Note is secured by a series of swap transactions consisting of an \$800 million prepaid commodity swap between Delta and Enron North America Corp ("ENA")², a Delaware corporation, a fixed for floating commodity swap between ENA and Citibank, and a fixed for floating commodity swap between ENA and Citibank. Enron has provided a financial guarantee in favor of Citibank with respect to ENA's obligations under the fixed for floating swap and a financial guarantee in favor of Delta with respect to ENA's obligations under the prepaid swap.

For U.S. Federal income tax purposes, the Yosemite transaction is treated as follows: (1) Yosemite is treated as a partnership; (2) the Certificates are treated as evidence of a partnership interest in Yosemite; (3) Enron, Long Lane, and Whitewing are treated as partners in Yosemite; (4) The LEOs are treated as indebtedness of Yosemite; (5) the Delta Note is treated as Yosemite's partnership interest in Delta; and (6) the swap transactions are treated as a single \$800 million loan from Delta to ENA.

Permanent Subcommittee on Investigation: EXHIBIT #193h

Yosemite also has entered into a credit derivative agreement with Citibank in order to provide credit enhancement for the LEOs, but the Enron Note and the Delta Note ultimately support this agreement.
Note that the prepaid swap and fixed for floating swap with Delta and Citibank are in fact recorded on the financial accounting books of [RMT Liquids], a division of Risk Management and Trading Corp., a Delaware corporation and wholly-owned subsidiary of ENA.

ISSUES

- 1. Are the LEOs characterized as a recourse or nonrecourse partnership liability of Yosemite pursuant to Section 752 and the regulations thereunder?
- 2. Assuming the LEOs should be characterized as a nonrecourse partnership liability of Yosemite, in what proportion should the liability be allocated to Yosemite's partners pursuant to Section 752 and the regulations thereunder?

CONCLUSIONS

- The LEOs should be characterized as a nonrecourse obligation under Section 752 and the regulations thereunder.
- The LEOs should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner's percentage interest in the Yosemite certificates.

DISCUSSION

Section 752 Regulations

Definition of a Nonrecourse Partnership Liability

A partnership liability is nonrecourse to the extent that no partner or a related person, (as defined by Section 267(b) or Section 707(b)(1)), bears the economic risk of loss as set forth in Section 1.752-2.³ A partner bears an economic risk of loss for a partnership liability to the extent that, if the partnership constructively liquidated, the partner or a related person would be obligated to make a payment to any person because the liability becomes due and payable and the partner or related person would not be entitled to reimbursement from another partner or a related person of another partner.⁴ Under a constructive liquidation, the following is deemed to occur⁵:

- a) All partnership liabilities become payable in full;
- b) All partnership assets, including cash, have a value of zero;
- c) The partnership disposes of all of its assets in a fully taxable transaction for no consideration (except for relief from liabilities for which the creditors' right of repayment is limited solely to one or more assets of the partnership);
 - d) All items of income, gain, loss, or deduction are allocated among the partners; and
 - e) The partnership liquidates.

Allocating Nonrecourse Partnership Liabilities Among Partners

³ Treas. Reg. § 1.752-1(a)(2).

⁴ Treas. Reg. § 1.752-2(b)(1),

⁵ Treas. Reg. § 1.752-2(b)(1)(i)-(v).

Once a determination has been made that a partnership has a nonrecourse liability, the liability must be allocated to the respective partners pursuant to Section 752 and the regulations thereunder. Generally, a partner's share of nonrecourse liabilities is equal to:

- a) The partner's share of minimum gain as determined under Section 704(c).6
- b) The amount of any taxable gain that would be allocated to the partner if the partnership disposed of the partnership property (in a taxable transaction) subject to one or more nonrecourse liabilities in full satisfaction of the liabilities and for no other consideration.⁷
- c) The partner's share of excess nonrecourse liabilities of the partnership (those liabilities not allocated among the partners under (a) or (b) above) as determined by reference to the partner's share in partnership profits.⁸

\$750 Million LEOs Issued by Yosemite

Nonrecourse Liability

Under a constructive liquidation of Yosemite pursuant to Section 1.752-1(b)(i)-(v), the following steps would be deemed to occur. The LEOs would become payable in full. The Enron Note and the Delta Note would have no value and Yosemite would be deemed to dispose of the Enron Note and the Delta Note in a taxable exchange for no consideration. If Yosemite is unable to repay the LEO holders, none of Yosemite's partners are obligated in any manner under the transaction documents to make a payment to any party. Enron's guarantee of ENA's swap obligations is not relevant because Yosemite's right to the swap repayment proceeds is derived solely from repayment of the Delta Note, which is deemed to have no value under the Section 752 constructive liquidation. Therefore, because Long Lane, Whitewing, and Enron would not bear the economic risk of loss with respect to the LEOs, the LEOs are a nonrecourse liability of Yosemite.

Allocation of the LEOs Among Enron, Long Lane, and Whitewing

Pursuant to the Yosemite trust agreement, a Certificate holder is entitled to an annual yield equal to 11% on the face amount of the holder's proportionate share of Certificates. Yield is payable semiannually as a distribution from Yosemite to the Certificate holder. Further, upon termination of the Yosemite transaction, and to the extent that sufficient value exists within Yosemite after the LEOs are fully repaid, a Certificate holder is entitled to a distribution from Yosemite equal to the face amount of the holder's proportionate share of Certificates. Accordingly, Long Lane, Whitewing, and Enron are each entitled to an 11% annual yield on their proportionate share of Certificates and, upon termination of the Yosemite transaction, repayment of the face amount of their proportionate share of Certificates.

Therefore, pursuant to the allocation method for nonrecourse liabilities under Section 752 and the regulations thereunder, the LEOs (principal amount plus accrued but unpaid interest) should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner's percentage ownership of the Certificates.

⁶ Treas. Reg. § 1.752-3(a)(1).

⁷ Treas. Reg. § 1.752-3(a)(2)

⁸ See Treas. Reg. § 1.752-3(a)(3).

\$750 Million Yosemite Debt – Recourse v. Nonrecourse Page {PAGE} {DATE}

CC: J. Ginty
D. Dewar
E. Locklear

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SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W. WASHINGTON, D.C. 20005-2111

TEL: (202) 371-7000 FAX: (202) 393-5760 http://www.skadden.com

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July 18, 2002

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Mr. Ross Kirschner Permanent Subcommittee on Investigations Senate Committee on Governmental Affairs 199 Russell Senate Office Building Washington, DC 20510

Re: Enron Corp.

Dear Ross:

As we have discussed, to date Enron Corp. ("the Company") has experienced difficulty in locating documents related to the accreditation process of trading counterparties, including Delta Energy and Mahonia, as requested by the Subcommittee. In addition to the Company's limited resources in bankruptcy, the Company has and continues to experience significant attrition among its employees. I am advised that the resulting lack of institutional knowledge has been an appreciable impediment to the Company's ability to fully respond to the myriad of requests from the Subcommittee and other governmental agencies.

As you know, the Company has devoted substantial resources to responding to the Subcommittee's numerous subpoenss and will continue to do so. The Company is continuing its efforts to locate the referenced documents and is willing to discuss any suggestions or information that the Subcommittee may have which could assist the Company in its efforts.

Sincerely yours,

SUSAN DeCler CQ Susan DoClercq

Permanent Subcommittee on Investigations

EXHIBIT #193i

1954

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME:	APEA Tax Exempt Prepay	Date DASH Completed:	April 9, 1999
Counterparty:	American Public Energy Agency	RAC Manager:	Christopher Smith
Business Unit:	Energy Finance West Origination	Investment Type:	Gas Prepayment
Business Unit Originator:	Sandra McDonald/Lard Dyer	Capital Funding Source(s):	N/A
□Public □Private		Expected Closing Date:	April 9, 1999
□Merchant □Strategic		Expected Funding Date:	April 15, 1999
□Conforming □Nonconforming		Board Approval: Dending D	

DEAL DESCRIPTION (Please refer to the attached Transaction Diagram):

The APEA Tax Exempt Prepay Transaction (the "Transaction") is structured as a twelve (12) year natural gas sale in which Enron Natural Gas Marketing Corp. ("ENCANC") will receive approximately \$280-\$285 million via American Public Energy Agency's ("APEA") issuance of tax exempt bonds. APEA is a Nebraska public agency authorized to issue tax-exempt bonds. Standard and Poor's has rated the Bonds, and the associated structure, AA- As consideration for the prepayment, ENGMC will be obligated via a Gas Purchase Agreement ("GPA") to deliver natural gas to APEA, over the noted tenure; the notional gas quantity associated with the transaction is 155,234,192 MMBtu.

The prepayment supports Gas Sale Contracts which APEA has negotiated with the following public entities ("Publics"), over the parenthetically referenced term: (i) Nebraska Public Gas Agency (5 years); (ii) Sacramento (California) Municipal Utility District (4 years); (iii) City of Pasadena, California, Water and Power Department (3 years); (iv) City of Glendale, California (4 years); and (v) Public Utility District No.1 of Clark County, Washington (3 years). The Gas Sale Contracts offer, among other things; (ii) "index minus" gas, and (ii) annual evergreen renewal provisions. The expectation is that the availability of "index minus" gas will give the respective party incentive to renew its Gas Sale Contract. However, ECT will enter into a Gas Re-marketing Agent Agreement to place the gas with other purchasers in the event any of the Publics default or fail to renew. The documentation permits redesignation of delivery points, with corresponding changes to the applicable index references. ECT is paid a fixed amount (\$0.01/MMBtu of gas) to act as Re-marketing Agent.

To eliminate market risk exposure to the bondholders and credit exposure to APEA two financial swaps will be transacted. APEA will enter into a To eliminate market risk exposure to the bondholders and credit exposure to APEA, two financial swaps will be transacted. APEA will enter into a floating-for-fixed swap with the Swap Counterparty (The Chases Manhattan Bank, AA- rately), and Ernor Capital and Trade Resources Corp. ("ECT") will separately enter into a fixed-for-floating swap with the Swap Counterparty, under ECT's existing ISDA Agreement. Due to accounting and tax concerns the two swaps cannot be directly finked or cross-defaulted. In order to enter into the swap contracts on an economically feasible basis, and to eliminate APEA credit risk from the structure, ENGIMO will enter into a Margin Agreement with APEA. The Margin Agreement will be assigned by APEA to Chase to secure any swap termination payment that may be due to Chase by APEA.

Any movement of funds associated with the Transaction, with the exception of the swap among ECT and the Swap Counterparty, will be channeled through a Trust; the strength of this structure has been affirmed via Standard & Poor's AA- rating on the bonds. In the event of an early termination, ENGMC will pay APEA a termination payment that will be sufficient to redeem the Bonds. Any termination payment will be paid directly by the providers of a performance surety bond (50% AIG and 50% Chubb). Error Corp. would then be obligated to indeamily the issuer of the surety bond under a pre-existing agreement. Enror's obligation to pay termination damages will be limited to the amount of the surety bond.

TRANSACTION SOURCES AND USES OF FUNDS:
The Transaction is a natural gas prepayment in which ENGMC will be receiving approximately \$280-\$285 million. The transaction will result in interest savings in the range of \$8-10 million over the next twelve years. Due to the nature of the Transaction no RAROC has been run.

EXISTING EXPOSURE

ECT currently has an extensive relationship with The Chase Manhattan Bank. ECT's financial exposure is governed via an ISDA that was originally put in place in 1984. As of the close of business, April 7, 1999, ECT's aggregate exposure with Chase was out-of-the-money approximately \$10.6

nent Subcommittee on Investigation EXHIBIT #193i

EC 000004873

RAC Deal Approval Sheet

Deal Name:

NON-HEDGABLE (IDIOSYNCRATIC) RISKS:

RISK	DESCRIPTION	MITIGATION/COMMENTS
Legal Risk a) Securities risk	The bonds are issued to the public, and are subject to federal and state securities laws.	We have disclaimed obligations and responsibility regarding disclosure under the official statement issued in connection with the bonds. Furthermore, Enron is not the primary obligor on the bonds.
b) Loss of tax exemption	The bonds are sold as tax-exempt obligations. Tax laws may change, or the IRS may challenge the tax exemption for the bonds. If it is determined that the bonds are not tax-exempt obligations, APEA could encounter lawsuits. Loss of tax exemption itself would not constitute a default under the bond resolution. However, if such loss of exemption results from a breach of APEA in its obligations under the Bond Resolution, such breach will constitute a "Triggering Event" and the GPA will be terminated early. Care has been taken to insulate ENGMC Care has been taken to insulate ENGMC and ECT from liability from bondholder suits. However, APEA is not heavily capitalized, and it is possible that Erron would be named as a defendant.	Kutak Rock, as bond counsel, will issue a tax opinion. Enron will receive a reliance letter entitting it to rely on that opinion.
Alternate Delivery Point/Physical Gas Risk Premium	ENGMC and APEA may mutually agree to change to an afternate, liquid, delivery point. Two of the initial sales contracts include specific flexibility to move to a previously specified alternate delivery location upon thirty days notice.	This risk has largely been mitigated by the mutual consent required under the GPA. The Transaction has been structured assuming that all of the gas under the two contracts with specific flexibility was taken at the delivery locations with the highest index premiums.
•	3.8 cents/MMBtu of physical risk premium has been factored into the transaction.	If ECT should be called upon to re-market gas, we will control where the gas is sold. ECT has an opportunity to market additional gas to initial purchasers (quantities under current contracts with Publics represent 25-33% of their average loads) or to seek new purchasers in locations with index premiums below the previous location.
		If APEA re-markets the gas, ENGMC has the opportunity to say "no" to any delivery location whose cost of delivery exceeds the index premium at the previous location.
	,	In conclusion, on an aggregate basis, sufficient funds are available to pay Enron's physical cash desk premiums given our control over the selection of alternative delivery points. Notwithstanding the risk current transactions with the Publics are not renewed, ECT can look to re-market the gas to any municipal purchaser.

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EC 000004874

RAC Deal Approval Sheet

Deal Name:

Ear	ly Termination	ENGMC has a 12-year obligation to deliver	While the pricing under the contract is
a) b)	Mismatch in terms of GPA and Gas Sale Contracts with Publics. Publics sell generation capability; growing trend in public power market.	gas to APEA. APEA sells the gas to Public entities under contracts with terms of 3 to 5 years. APEA is required to sell at least 90% of the gas, in aggregate, to Public entities over the entire 12-year term. ECT acts as APEA's re-marketing agent. The initial contracts permit early termination if Publics no longer consume natural gas.	extremely attractive and we expect all of the Publics to renew the contracts through the entire 12-year term, ECT has substantial flexibility in re-marketing the gas. The pricing, delivery point flexibility and size of the market significantly reduce this risk. ENGMC largely controls whether a termination event occurs.
c)	Event of default on the bonds caused by non-payment of APEA or gas purchasers (Publics).	Early termination may result in ENGMC having to pay more than current market value of undelivered gas. This risk is reduced as bond amortization occurs over time.	The re-marking arrangement permits ECT to attempt to find new tax-exempt buyers on a best efforts basis. Underlying contracts permit delivery point flexibility. The contracts require APEA to sell gas only to public entities that meet minimum credit criteria. Termination for non-payment is further limited by the presence of liquidity reserves funded by bond proceeds and surplus funds of APEA.
en e			Termination due to non-renewal or ECT's ipability to find suitable purchasers is unlikely due to: (i)Pricing to the Publics is based upon the delivery point specific 1ª of month index less 4-5 cents/MMBru; (ii) the contracts with the Publics, after the initial term, renew automatically on an annual basis unless 6 months notice is provided; (iii) ECT has the right to re-market gas at any liquid trading point in the country; (iv) Public entities in the U.S. consume, on average, in excess of 2 Bcf/d; (v) APEA's current contract quantity with each Public entity represents 25-33% of the entity's average gas use; (vi)
Andreas en en entre de la participa de la companya			ECT can re-market up to 10% of the gas in aggregate to any entity. This "bad" use represents 14 months of sales. Early Termination due to sale of purchaser's generation units or loss of load is mitigated by the requirement that the prepaid gas is the last gas used in the Publics' system. If a divestiture trend develops in public power, municipal gas LDC's and other tax-exempt entities such as schools, hospitals and governmental loads will be targeted for re-sales.

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RAC Deal Approval Sheet

Deal Name:

HEDGABLE OR MARKET RISKS:

Foreign Exchange Risk	N/A
Interest Rate Risk	LIBOR swap to be executed simultaneously with the sale of the municipal bonds. Interest rate hedge will effectively lock in an attractive twelve year borrowing rate for ECT.
Credit Risk	The structure of the Transaction has been designed to eliminate APEA credit risk. This is accomplished via: (i) the establishment of a Trust - with the exception of the swap among ECT and the Swap Counterparty, all funds will be channeled through the Trust; (ii) exposure to market risk is mitigated via the swap among ECT and the Swap Counterparty, and the Margin Agreement among ENGMC and APEA, for the benefit of the Swap Counterparty and ENGMC. Thus, ECT/ENGMC's credit risk in the Transaction lies primarily with non-performance of the Swap Counterparty (The Chase Manhattan Bank) which is rated AA
	Risk of non-payment by the Publics (leading to early termination of GPA) mitigated by imposing credit requirements prior to sale and permitting termination of the respective Gas Sale Contract if payment is not received within five days of due date.
Inflation Risk	N/A
Commodity Risk	In the event of an Early Termination, ECT may be forced to rehedge its position pursuant to its swap with the Swap Counterparty, if the Swap Counterparty refuses to a negotiate an unwind of the swap. Financial incentives have been placed both in the Margin Agreement and the Swap Confirmation among ECT and the Swap Counterparty, to mitigate this occurrence.

OTHER	DAC	COMMI	NITO.
UINEM	MAL	CUMMI	NIS

SYNDICATION (ECM):

- Immediately syndicatable at current capital price Syndication within one year at current capital price Not syndicatable at current capital price N/A

APPROVALS:	Name	Signature	Date
RAC Management	Rick Buy		
Enron Natural Gas Marketing			
inc.	Ray Bowen		
Business Unit Originator	Sandra McDonald		
Business Unit Originator	Laird Dyer		
Business Unit Legal	Mark Haedicke		
Business Unit Mgmt	Kevin McConville		
Business Unit Mgmt	Greg Piper		
ECT Trading	Greg Whalley		
ECT Structuring	Wanda Curry		
ECT Management			

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RAC Deal Approval Sheet

Deal Name:

DEAL DEFINITIONS

<u>Bid Bond</u> A letter of credit or surely bond delivered at the time of submission of a bid. It guarantees that if the bidder is awarded the project that is the subject of the bid, the bidder will execute the relevant project documents in accordance with the terms of the bidder's bid.

leal Description short written summary of the investment.

<u>Deal Name</u> Unique name for an investment/deal usually defined by Capital Pricing director or Business Unit Originator.

Deal Risk Premium (%) Premium for a deal derived by a comparison of the transaction volatility of returns to historical sector volatility of returns; additionally incorporates any other adjustments for risks specific to the transaction. Premium could be negative if the transaction exhibits less risk than is reflected in the unadjusted capital price.

Capital Commitment (\$M) Expected present value of cash outflows in the transaction.

Expected IRR (%) the discount rate at which the net present value of the expected cash flows would be equal to zero. This measures the expected return of the transaction but does not incorporate a measure of risk.

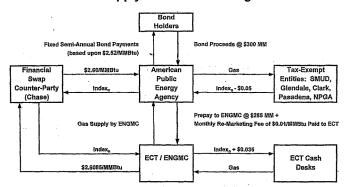
NPV @ Capital Price (\$M) Net Present Value at the Capital Price discount rate.

Risk-Free Rate (%) the rate derived by weighting Treasury curve rates by the expected cash flows in the corresponding periods.

Type of Investment Specific type of investment. For example, VPP, LP, loan, equity, alliance, debt, derivatives, refinance, and physical sales. Sometimes referred to as instrument Type.

Value at Risk (\$M) The loss in value over a specified period of time (quarterly, daily, etc.) which will be exceeded with a certain probability. Evaluated based on market comparables.

Tax Exempt Financed, Prepaid Gas Supply: Transaction Diagram



Note: Subscript "n" represents any of a number of liquid delivery points. Initial delivery points are: N. California Border (Malin), S. California Border (Topock), Permian Basin, Sumas, AECO and NNG Demarcation.

ECT INDUSTRIAL SERVICE APR-08-1999 13:29 STANDARD &POOR'S Public Finance New Issue Review

ISSUER: AMERICAN PUBLIC ENERGY AGENCY, NEBRASKA

NEW RATING
S300 million gas supp rev binds (Nebraska Public Gas Agency-Western A Project)
ser 1999A did 04/01/1999 due 06/01/2011

OUTLOOK: NM

RATIONALE

American Public Energy Agency's (APEA) bonds are rared "AAA" as a structured rating. Bond proceeds util fund a rock-to-year gas supply that APEA is purchasing from Enron Natural Gas Marketing Corp. (ENGMC).

ENGMC is a wholly-owned subsidiary of Enron Capital and Trade Resources Corp., which, in turn, is a wholly-owned subsidiary of Euron Carp. ENGMC is not need by Sandard & Poot's. ENGMC's obligations are supported by a surety provided by American Home Assurance Company and by Federal Insurance (Company which are each rated "AAA" by Sandard & Poot's. The nurrey providers are severally, but not jointly liable for 50% of the surety obligation. They must be related to least "AAA" throughout the life of the insucation or must be replaced with an appropriately rated entities least "AAA" throughout the life of the insucation or must be replaced with an appropriately rated entities. The surety providers and the resolution represents the mandatory extraordinary redeemption of the bonds. Under specified conditions, the transaction is turnwound, the bonds are called and proceeds of the surety are used to retire all outsmaling bonds at their sumorized price. The definitive unnerlized price stockedule will be set following pricing and may be less than or greater than the bonds are called and proceeds of the surety are used to retire all outsmaling bonds at their sumorized price. The definitive unnerlized price to the estimation and lead to the bonds' redemption. Until Euron declares a triggering event which will unwind the transaction and lead to the bonds' redemption. Until Euron declares a triggering event which will unwind the transaction and lead to the bonds' redemption. Until Euron declares a triggering event mich will unwind the transaction and lead to the bonds' redemption. Until Euron declares a triggering event mich will unwind the transaction and lead to the bonds' Euron with the financial intentive to unwind the transaction. Further security is provided by the requirement that a triggering event man

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EC 000004879

MEMORANDUM

Confidential Communication
Attorney-Client Privilege

TO:

Jordan Mintz

FROM:

Mornis R. Clark

DATE:

June 30, 1999

RE:

Federal Income Tax Treatment of Prepayments

This memorandum addresses the federal income tax treatment of the receipt of certain prepayment proceeds. In particular, Section I provides a brief overview of the general rules governing the recipient's timing for recognizing payments as taxable income. Sections II and III focus on the various Enron prepayment transactions and how such transactions were treated for federal income tax purposes, including a discussion of various Enron entities involved in these transactions. Section IV discusses our recommendations regarding the most tax efficient method of executing fixure prepayment transactions.

Overview

By way of background, Enron has entered into approximately \$3 billion in prepayment transactions since 1992. Enron typically enters into three types of prepayment transactions: (i) financial prepayments — which are entered into as a means of generating each flow for Enron; (ii) commercial prepayments — which are entered into as part of an underlying commercial transaction; and (iii) tax accelerated prepayments — which are entered into as a means of accelerating taxable income in order to utilize certain tax credits or losses. Generally, prepayment transactions are treated as deferred revenue for financial accounting purposes and income (including an interest component) is recognized as the "commodity" is delivered to satisfy the prepayment. (See Attachment A for a summary of the book/tax treatment of the various prepayment transactions).

Permanent Subcommittee on Investigations
EXHIBIT #193k

Although the propayment is treated as deferred revenue for financial accounting purposes, it is our understanding that the transaction is not treated as debt for credit rating purposes. Rather, the prepayment is viewed as port of Euron's overall price risk management activity. Once the prepayment transaction is executed the commodity returnes that will be delivered in future are recorded on our commodity risk books. Since the commodity books are accounted for under the mark-to-market method of accounting, the prepay transaction ultimately results in the recording of a mark-to-market liability on the commodity books. However, once the prepay transaction is recorded on our risk books, Enron will then enter into a financial swap to hedge the price and basis exposure associated with the prepay liability.

For federal income tax purposes, the treatment of the prepayment transactions varies depending on the type of transaction entered into and the particular entity used to effectuate the transaction. Furthermore, the tax treatment of the prepayment transaction is also dependent upon whether the prepayment or advance payment? involves inventory goods or non-inventoriable goods. Prepayments relating to non-inventoriable goods (goods not properly includible in the inventory of the taxpayer) must generally be included in the taxable income of the recipient in either: (i) the taxable year of receipt; or (ii) the taxable year in which such prepayment would be properly accumable under the taxpayer's method of tax accounting

For example, a typical accrual method taxpayer would recognize income no later than year of receipt. However, manufacturers can use a modified accrual method which allows income recognition to be deferred until the goods are shipped, delivered or accepted. Furthermore, under certain limited circumstances, an accrual basis texpayer can recognize proceeds received to modify certain "take or pay" contracts into income ratably over the life the contract. In any event, a taxpayer can only defer recognition of the prepayment income under its tax accounting method to the extent that such method results in income being recognized no later than the time such payments are included in gross income for financial reporting purposes.

Notwithstanding the general rule, an exception exists for prepayments for inventoriable goods (e.g. gas, oil, power³, and other commodities). The special rules relating to prepayments for inventoriable goods provide that such prepayments must be included in the recipient's income no inter than the second taxable year following the receipt of a "substantial advance payment" — effectively resulting in a two year deferral of income recognition. Generally, Enron's prepayment transactions involve goods held in inventory (e.g. oil or natural gas) and, as such, fall under the inventoriable goods exception.

Based on the above rules, Euron has elected to treat the 1992 and early 1993 prepayment proceeds as taxable income in the year of receipt, while electing to defor the recognition of income from the later prepayment transactions. It should be noted that once a taxpayer

The terms "prepayment" and "advance payment" are synenymous and are used interchangeably. Prepayments or advance payments are defined as say amount which is received in a usuable year by a taxpayer using an accrual method of accounting and such amount is made pursuant to an agreement for the sale of goods held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business and such agreement is not completed within the marble year. Treas. Reg. § 1.451-5(n)(1)(i). For consistency purposes, we will refer to such payments as "prepayments".

¹ Although the Service has not explicitly addressed whether power should be considered inventory for purposes of the prepayment rules, the Service has held that electricity is an inventoriable good in several non-propayment contexts. For example, Technical Advice Memorandum 9523001 held that the taxpayer (an independent power productr = "IPP" or qualifying facility = "QP") must use the section method of accounting because electricity was inventoriable merchandise. See also Private Letter Ruling 9641004 holding that capacity payments made by an electric utility to a QF should be included in the utility's electricity inventory costs.

cleets to either accelerate or defer recognition of prepayment proceeds, such election generally becomes irrevocable absent the express consent of the Internal Revenue Service ("Service"). However, Enron was able to both accelerate and defer recognition of certain prepayment proceeds by using separate entities to effectuate certain transactions. (See Section III for a discussion of the particular elections made by the various Enron entities).

Discussion

L Overview of Timing Rules

A. General Rule for Taxable Year of Inclusion

Generally, receipts should be included in gross income in the year in which they are actually or constructively received by the texpayer, unless such receipts should be included in a different year in accordance with the texpayer's method of tax accounting. Treas, Reg. § 1.451-1(a). For instance, under an accrual method of accounting, income is included in gross receipts when all the events have occurred which fix the right to receive such income and the amount of such income can be determined with reasonable accuracy. Treas, Reg. § 1.446-1(c)(1)(ii). "All events" are normally deemed to occur at the earlier of when: (i) the required performance under the contract occurs; (ii) payment is due; or (iii) payment is made. (See Rev. Rul. 74-607, 1974-2 CB 149 where the Service applied the above rule to the accrual of interest and held that interest should be included in income ratably over the life of the loan since performance, i.e., making of the loan, occurred before payment).

In addition to these general accrual rules, a taxpayer engaged in a manufacturing business may account for sales under a modified accrual method where taxable income is recognized when either: (i) the goods are shipped; (ii) the product is delivered or accepted; or (iii) title to the goods passes to the customer. Treas. Reg. § 1.446-1(c)(2)(C). Although a taxpayer using a modified accrual method has some flexibility regarding the timing of income recognition, the accrual method selected must clearly reflect income and must be consistently used by the taxpayer from year to year. Id. In that event, income realization may be pushed out a bit further.

The interaction of the general accrual rules with the modified accrual method can be illustrated by the following example:

S, a manufacturer, uses the traditional accrual method for tax and financial accounting purposes. S has a contract with B which calls for S to provide 100 widgets to B each month. S usually ships the widgets to B on the 20th of each month. S also bills B on the 20th of each month with payment due by the 30th of each month. B typically receives the goods 7 days after shipping (when title passes) and has 5 days to inspect and accept the goods. Under the traditional accrual method of accounting, "all events" would occur when the required performance under the contract occurs — that is on the 20th, the shipping date.

However, if S used a modified accural method, S could choose to recognize income when the widgets are accepted -- 12 days after chipping.

Thus, as a manufacturer, the taxpayer can elect to defer recognition of income until after the shipping date provided that its method of accounting is both consistent and clearly reflects income.

It should also be noted that in certain circumstances, the Service has allowed a limited exception to the "all events" test with regards to certain "take or pay" or other similar payments. Under this exception, an accrual basis taxpayer may be able to defer recognition of proceeds if the payment is made to modify an existing contract rather than terminate such contract. In these limited circumstances, the Service will allow the taxpayer to take the modification payment into income over the life of the modified contract. For example, the tax accounting rules relating to "take or pay" contracts has been invoked in certain prepay transactions involving the restructuring of power purchase agreement ("PPA") contracts between utilities and IPPs located in the Northeast United States (e.g. Connecticut Light & Power/AES and New England Power/Haverhill recently entered into PPA modifications structured as prepayments). (See Section LB.2. below for further discussion of the tax treatment of the recent IPP restructurings).

B. Rules Governing Prepayments

1. General Rule

In addition to the all events test, there are two special rules governing taxable income recognition of prepayment proceeds. The first rule, the general prepayment rule, governs prepayments for non-inventoriable goods (e.g. relating to an agreement for the sale of goods that are not includible in the taxpayers inventory). It provides that a prepayment should be included in income in either:

- (i) the taxable year of receipt;
- (ii) the taxable year in which properly accruable under the taxpayer's method of accounting (provided that such method does not result in including prepayments in income later than the time such payments are included in gross receipts for financial reporting purposes); or
- (iii) If the taxpayer's method of accounting does result in including prepayments in gross receipts for financial reporting purposes earlier than for tax purposes, then in the taxable year that such payments are included in gross receipts for financial reporting purposes. Treas. Reg. § 1.451-5(b).

Thus, in a non-inventory prepayment, the recipient can either recognize prepayment proceeds in the year received or defer recognizion under an accrual method (e.g. a manufacturing company would be able recognize income under an accrual

4

method as goods are shipped or delivered) provided that such deferral does not result in income being recognized later than for financial reporting purposes. The general prepayment rules can be illustrated by the following example:

S, a retailer, uses for tax and financial accounting purposes an accrual method of accounting under which it accounts for its sales when the goods are shipped. S receives an advance payment for such goods. Such advance payment must be included in gross receipts for tax purposes either in the taxable year the payments are received or in the taxable year such goods are shipped.

Thus, as a retailer, the taxpayer can defer recognition of the propayment proceeds until the taxable year that the goods are shipped, provided that such income is not recognized any earlier for financial accounting purposes.

The above example assumes that the prepayment will be settled by delivering the physical commodity. This is important because, by definition, a prepayment must be made pursuant to an agreement for the sale of goods, (Seg footnote 2, above). As such, the prepayment transaction must actually provide for the sale of the underlying physical commodity. A purported prepayment transaction that merely requires the prepayment recipient to pay a specific amount of money based on the notional principal amount of an indexed commodity would be analyzed as a loan for foderal income tax purposes. Notwithstanding the sale of goods requirement, a prepayment recipient can arrange to market or sell the underlying physical commodity on behalf of the counterparty as long as the actual cash proceeds from such sale are remitted to the counterparty. Furthermore, the counterparty must assume the price risk of the sale—that is, the prepayment recipient cannot guarantee a certain return from the actual sale of the commodity.

2. Exception for Prepayments Relating to Inventory Goods

Notwithstanding the general prepayment rule, if an accrual basis taxpayer receives a prepayment with respect to an agreement for the sale of goods that are properly includible in its inventory (e.g. commodities) and on the last day of such taxable year;

- (i) the taxpayer has goods on hand (or available through normal sources of supply) to satisfy the agreement in such year; and
- (ii) the taxpayer has received "substantial advance payments" under such agreement.

A "Substantial advance payments" are deemed to exist if the sum of all prepayments equal or exceed the total estimated costs and expenditures necessary to satisfy the agreement. Trans. Rog. § 1.451-5(c)(3). The substantial advance payment rules can be illustrated by the following example: X exters into a prepayment contract for the sale of goods over a five year period for a total contract price of \$100. X estimates that his total inventoriable costs and expenditures for the goods will be \$50. X receives a "substantial advance payment" in the year that he receives \$50 or more under the contract, determined in the aggregate.

then all prepayments received by the last day of the second taxable year following the year in which such "substantial advance payments" are received (and not proviously included in income in accordance with the taxpayer's accrual method of tax accounting) must be included in income in such second taxable year. However, such deferral cannot result in a taxpayer recognizing income later than for financial reporting purposes. Treas. Reg. § 1.451-5(c). As such, this two year deferral is not available if Enron recognizes prepayment income under the mark-to-market method of accounting for financial reporting purposes.

In the event that prepayments are required to be taken into income under the inventoriable goods exception, then the taxpayer must take into account the estimated cost of goods necessary to satisfy the agreement. As such, only the net prepayment amount will be subject to tax in the second year following receipt.

The inventoriable goods prepayment exception can be illustrated by the following example:

S, a retailer, uses for tax and financial accounting purposes an acctual method of accounting under which it accounts for its sales when the goods are shipped. During 1998, S receives an advance payment for goods currently held in its inventory in the amount of \$100. These goods will be shipped over three years from 2001 through 2003. The estimated cost of such goods is \$50. Under the non-inventory prepayment rules, S could elect to defer recognition propayment proceeds until the goods are shipped in years 2001, 2002, and 2003. However, under the inventoriable goods exception, S could only defer recognition of the prepayment until the second taxable year following receipt - or in year 2000. However, S would be able to take into account the estimated cost of the goods (\$50) such that S would only take into account \$50 of income in year 2000.

By way of summary, if the prepayment relates to non-inventoriable goods, S would have to either: (i) recognize the prepayment proceeds in taxable income in the year of receipt; or (ii) defer recognition under an accrual method (e.g. S recognizes income as goods are shipped or delivered). On the other hand, prepayment proceeds for inventoriable goods should be included in S' taxable income no later than the second year after receipt of payment.

In light of recent developments in the power industry, it is also important to note that several recent PPA modifications were structured as prepayments for non-inventoriable goods. The IPPs were able to assert that power was not an inventoriable good because of their status as QFs for federal energy regulatory purposes. As a QF, power can only be supplied from limited sources — mainly from itself or other QFs. As such, the IPPs contended that: (i) they did not currently have the power on hand; and (ii) the power was "not readily available" because it could not get the power on the open market due to regulatory limitations. However, in discussing this approach with outside counsel this

structure was considered a very aggressive tax position because their reliance on federal regulatory interpretations are not binding on the Service.

II. Enron Prepayment Transactions

As noted at the outset of this memorandum, Enron has been involved in approximately \$3 billion in prepayment transactions since 1992. Historically, Enron's prepayment transactions have fallen into two categories: (i) taxable income accelerated ("TIA") prepayments—that is, prepayments where Enron needed to accelerate the recognition of income in order to take advantage of certain tax credits or losses; or (ii) strategic cash flow prepayments, where Enron has entered into a prepayment simply as a means to generate significant cash flow. (In addition, Enron has, on one isolated occasion, entered into commercial prepayments with an industry participant. However, this prepayment transaction has been completed and product is no longer being delivered pursuant to such transaction.)

The appropriate Enron entities that should be used to effectuate the various prepayment transactions is discussed in Section III below.

A. Taxable Income Accelerated Prepayments

Enron entered into three TIA prepayments during 1992 and 1993. (See Exhibit B for a list of prepayment transactions). These prepayments were entered into primarily as a means for generating taxable income in order to take advantage of Section 29 credits generated by Enron Oil & Gas ('EOO') which, at that time, was part of Enron's consolidated group. By way of overview, Section 29 credits are used against regular tax liability, but cannot be used against the alternative minimum tax ("AMT"). Further, the Code does not authorize Section 29 credits to be carried forward and, as such, a taxpayer loses the benefit of the credits if it does not have sufficient regular taxable income. (However, such credits would be added to the taxpayer's AMT credit carryforward). Therefore, Enron had to create regular taxable income to realize the benefit of the credits, thereby helping to reduce its effective tax rate.

The TIA prepayments were typically structured as forward oil sale contracts with a counterparty arranged by a financial institution (Chase Manhattan or Citibank), whereby the counterparty would make a significant up-front payment in exchange for Enron's obligation to deliver oil on a monthly basis over a 3 to 4 year period. Since Enron holds oil in its inventory, these prepayment transactions were subject to the inventoriable goods exception which requires income to be recognized in either the year of receipt or deferred for a period no longer than two years. Again, in order to use the Section 29 credits, Enron elected to recognize the proceeds from these prepayments in the year of receipt.

⁵ Typically, the financial institution counterparty does not actually take delivery of the oil or gas over the term of the prepayment. Instead, Euron will act as a marketer for the counterparty and sell the agreed upon volume of oil or gas in the open market and pay the proceeds from such sale to the counterparty.

For financial accounting purposes, the TIA prepayments are essentially treated as deferred revenue and income (with an interest component) is recognized under an accrual model over time as the product is delivered in satisfaction of the prepayment. The transaction is not treated as debt for accounting and credit rating purposes, but rather, the prepayment is viewed as a part of Enron's overall price risk management activity. (See footnote 1, above).

B. Strategic Cash Flow Prenayments

The majority of Enron's prepayments have been structured as strategic cash flow prepayments and we anticipate additional prepayments this year. Rather than entering into these prepayments to take advantage of tax attributes, these prepayments were entered into primarily as a means of generating cash flow for Enron. These strategic prepayment transactions were typically structured as either forward oil sale contracts or natural gas forward sale contracts with a counterparty arranged by a financial institution (Chase Manhattan), whereby the counterparty would make a significant up front payment in exchange for an Enron obligation to deliver oil or natural gas on a monthly basis over a period of several years (3-6 years). As previously explained, after EOG was deconsolidated from the Enron group, there was less of a need to generate regular taxable income to use Section 29 credits. As a result, Enron elected to defer recognition of these prepayment proceeds. However, since both natural gas and oil are carried in Enron's inventory, these prepayments fall under the inventoriable goods exception and, as such, gain recognition roay only be deferred for a period of two years after the year of receipt. (Seg Section I.B., above).

For financial accounting purposes, the cash flow prepayments are treated as deferred revenue with income, including an interest component, recognized over time as the product is delivered in satisfaction of the prepayment. However, the prepayments are not treated as debt for balance sheet purposes, but rather, are treated as a fixed price commodity contract as part of Enron's overall price risk management activity.

C. Commercial Prepayments

Enron entered into one commercial prepayment in 1992. This prepayment was not entered into for tax or cash management reasons, but was merely entered into as a part of an underlying commercial transaction. This transaction was structured as forward oil sale contract with Texas Utilities Fuel Co. ("Tufco") as the counterparty. The prepayment amount was considerably smaller than any of the other accelerated or strategic prepayments. Since oil is an inventoriable good with respect to Enron, it could either recognize the prepayment income in the year of receipt or elect to defer recognition of such income for period not to exceed two years. However, because EOG had Section 29 credits readily available in 1992, Earon, nevertholess, elected to accolerate the recognition of the Tufco prepayment proceeds.

Again, for financial accounting purposes, commercial propayments are treated as deferred revenue with income, including an interest component, recognized over time as the product is delivered. However, the prepayments are not treated as debt for balance sheet or credit rating purposes.

III. Enron Prepayment Entities

As stated earlier, a taxpayer who receives prepayment proceeds has the option of either recognizing income in the year of receipt or deferring recognition until a later year. Although the taxpayer does not have to make an affirmative election on any particular tax form, the taxpayer must include an annual information schedule with its income tax return reflecting: (i) the particular recognition method used; (ii) the amount of prepayment proceeds recognized in the current year; and (iii) the total amount of payments received but not yet recognized. Treas. Reg. § 1.451-5(d). (See Attachment C for a copy of the annual information statement that is filed with Enron's consolidated tax return).

Once a taxpayer elects to either include prepayment proceeds in the year of receipt or to defer recognition until a later year, such tax treatment becomes the taxpayer's method of accounting for prepayments. The consequence of a prepayment election becoming a method of accounting is that the taxpayer cannot change such method of accounting without consent from the Service. Treas. Reg. § 1.446-1(e).

A. Entities Electing to Include Prepayments In Year of Receipt

The Enron entities used to facilitate the accelerated prepayments were Enron Reserve Acquisition Corp. ("ERAC"), Enron Power Services ("EPS") and EGS Hydrocarbon Corp. ("EGS"). ERAC and EPS made the accelerated recognition election in 1992, while EGS made its election in 1993.

At the end of 1994, EPS was merged (along with several other entities) into Enron Risk Management Services ("ERMS") as part of the "mega-morger" that created Enron Capital & Trade Resources Corp. ("ECT"). Thus, under the tax attribution rules of Code § 381, ECT must continue to use the prepayment accounting method of EPS under the "principal accounting method test". Treas. Reg. § 1.381(c)(4)-1(c)(2)(iv). As such, ECT has effectively elected to accelerate the recognition of any prepayment proceeds. Thus, although ECT may be the preferred entity to effectuate prepayment transactions from a commercial or legal perspective (since the counterparty may already have a master swap agreement in place with ECT or because the counterparty otherwise has familiarity with ECT from other commercial deals), ECT may not be the preferred entity from a tax perspective (See discussion of recommended entities in Section IV below).

B. Entities Electing to Defer Recognition of Prepayments

The Enror entities used to facilitate the strategic propayments were Enron Hydrocarbons Marketing Corp. ("Hydrocarbons"), Enron Cushing Oil Marketing, Inc. ("Cushing Oil")

and Enron Natural Gas Marketing ("ENGM"). As stated earlier, these entities elected to defer recognition of prepayment proceeds because there were no readily available tax credits to justify accelerating the recognition of taxable income. Hydrocarbons' election was made in 1993, Cushing Oil's election was made in 1994, and ENGM's election was made in 1995. TenGM continues to have 1996 and 1997 prepayment proceeds that have not been fully recognized as income.

IV. Future Prepayment Transactions

A. TIA Prepayments

As noted above, TIA prepayment transactions are entered into to generate taxable income to offset expiring tax attributes (tax credits or net operating losses). As such, these transactions should be effectuated with an entity that has elected to recognize prepayment proceeds in the year of receipt. It is recommended that ECT be used for any future TIA prepayments.

B. Financial Prepayments

Financial prepayments are entered into as a means of generating strategic cash flow. Since these transactions do not involve the utilization of offsetting tax attributes, financial payments should be effectuated with an entity that elects to defer recognition of prepayment proceeds. As such, ENGM should continue to be the entity used for all future strategic prepayment transactions.

Notwithstanding the above, however, there may be a number of circumstances where ECT is the preferred entity from a commercial or logal perspective (ie. ECT already has a master agreement in place with the counterparty or the counterparty would prefer to deal with ECT because of familiarity). In the event that commercial realities mandate that ECT act as the propayment entity, we will consider whether it is feasible to change ECT's prepayment accounting method and use it for these transactions.

C. Commercial Prepayments

As noted above, commercial prepayments are entered into as part of an underlying commercial transaction. Although we have rarely entered into commercial prepayments, it is anticipated that we may have opportunities to enter into more of these transactions in

It should be noted that Hydrocarbons entered into prepayment transactions with Chase in both 1993 and 1994. Although Treas, Reg. § 1.451-5 requires that all remaining income from the 1994 prepayment transaction (as well as the estimated remaining cost of eales) should have been encognized in 1996, and notwithstanding turn advice to this point, such amounts were not reported in 1996. Such amounts will be reported as deliveries are made. This prepayment is scheduled to expire in 1999.

⁷ From 1993 to 1996, Encon created a new entity every year to effection its prepayment transactions. The new entities were created to isolate the particular transactions and in order to make the proper deferral election.

Attachment A

TAXATION OF PREPAYMENTS Outline of Book/Tax Treatment

I. Financial Prenavments

- A. blook Treatment
- Trented as deferred revenue and income recognized over time as product is delivered to satisfy the prepayment; also has an interest composient
- D Not treated as debt on belence short but is treated as a price risk management liability
- B. Tax
- O Election to defer under accrual method
- Inventoriable goods exception would limit the deferral to the second taxable year following the year of receipt (2 year deferral)
- Also takes into account the estimated cost of goods, thus resulting in reporting of net revenue

II. Commercial Pressyments

- A. Book Treatment
- Treated as deferred revenue and income recognized over time as product is delivered to satisfy the propayment; also has an interest component
- Il Discussions ongoing regarding recognition under MTM
- B. Tax
- () Election to defer under accrual method
- Inventoriable goods exception would limit the deferral to the second taxable year following the year of receipt (2 year deferral)
- D Also take into account the estimated cost of goods

IF MTM is adopted for future transactions:

- O Must take into income no later than the year taken into income for Buancial accounting purposes (ie. Year I for MTM)
- (Must take gross revenue into account
- Cost of goods are taken into account as product is delivered thereby potentially creating a substantial timing difference

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Enron Corp. And Subsidiaries (47-0255140) Corporation Income Tax Return For The Year Ended 12/31/96

Statement Pursuant to Regulation 1.451-5(d) for Enron Natural Gas Marketing (76-0481290)

Advanced Payments Received 1/1/96 to 12/31/96 Not Taken into Taxable Income Currently

\$348,782,975

Advanced Payments Received Paior to 1/1/96
Taken into Taxable Income Currently

, क्ष्यु \$ 49,673,885



Interoffice Memorandum

To: AnnMarie Tiller

From: Brent Vasconcellos

Subject: Yosemite I Withholding for Year 2000

Department: Tax Planning

Date: April 11, 2000

Confidential: Attorney-Client Privilege

Pursuant to your request, I have prepared the following analysis regarding Enron's year 2000 reporting position related to payments made by Enron North America ("ENA") to Delta Energy Corp. ("Delta"), a Cayman Islands exempt LLC, as part of the Yosemite financing transaction.

Background

Delta was initially capitalized with nominal equity held by a Cayman Islands charitable trust and a \$800 million cash advance by Yosemite Securities Trust I ("Yosemite"), a Delaware statutory business trust, in exchange for a promissory note. For tax reporting purposes, we will characterize the \$800 million advance by Yosemite to Delta as an equity interest in Delta notwithstanding its legal form as a promissory note. Given this reporting position, a check-the-box partnership election was filed for Delta effective November 18, 1999. Accordingly, Form 8865 will be filed for 1999 to report Yosemite's contribution to a foreign partnership.

After its initial capitalization, Delta entered into a cash-settled swap with ENA on the price of crude oil and used the \$800 million loan proceeds to prepay its obligation to ENA under the swap. The swap was part of a three-legged swap among Delta, ENA, and Citibank and will be treated for tax purposes as a \$800 million loan by Delta to ENA. Under the terms of the swap, ENA is required to make semi-annual floating swap payments to Delta for five years on April 14 and October 14. The payments are determined by multiplying the spot price for crude on the payment date oil by 1,212,375 barrels of crude.

Issues

 On what basis, under I.R.C. § 1441 and its regulations, can ENA make floating swap payments to Delta during calendar year 2000 without reduction for U.S. federal income tax withholding?

EC 000037282

Permanent Subcommittee on Investigations
EXHIBIT #1931

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¹ See Background section of the "Yosemite I Withholding" memo dated January 10, 2000.

The promissory note evidencing Delta's obligation to repay Yosemite \$800 million contains tax characterization or "Danielson" language that treats Delta as a partnership and the promissory note issued to Yosemite by Delta as a

partnership interest for tax purposes.

The interest rate on the swaps and the interest rate on the promissory note between Delta and Yosemite mirror one another and thus any income flowing through Delta as a result of the swaps is distributed entirely to Yosemite.

Yosemite I Withholding for Year 2000

Page 2

4/11/00

Considential: Attorney-Client Privilege

2. Assuming that in calendar year 2000 ENA has a basis to make the floating swap payments to Delta without reduction for withholding, would the payments nevertheless be reportable under I.R.C. § 1441 or the regulations thereunder?

Executive Summary

- 1. ENA may make the floating swap payments to Delta without reduction for U.S. federal income tax withholding under I.R.C. § 1441 and the regulations thereunder on the basis that Delta is a partnership for federal income tax purposes and that the sole beneficial owner of the income received by Delta under the swap is Yosemite, a U.S. person (i.e., for tax purposes, the payments under the swap are made between two U.S. persons).
- 2. Since, for tax purposes, the swap payments would be considered made between two U.S. persons, they would not be reportable under I.R.C. § 1441 or the regulations thereunder.

Discussion

New Withholding Forms under § 1441

In late 1997, the IRS released final regulations (the "Regulations") to replace the then current regulations promulgated under I.R.C. § 1441 that deal with payments made by U.S. persons to foreign persons. As originally released, the Regulations were to be effective for payments made after December 31, 1998. In early 1998, in connection with the release of the Regulations, the IRS released Announcement 98-15 and 98-51 to solicit comments regarding proposed new withholding forms (the "Forms") to accompany implementation of the Regulations. The IRS then released Notice 98-16 to delay the effective date of the Regulations until January 1, 2000. In the same notice the IRS also announced that the Forms proposed in Announcement 98-15 and 98-51 would be deemed to satisfy the current regulations. In 1999, the IRS released Notice 99-25 to again delay the effective date of the Regulations until January 1, 2001.

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^{4 &}quot;Treasury and the IRS believe it is in the best interest of tax administration to extend the date of applicability of the final withholding regulations to ensure that both taxpayers and the government can complete the changes necessary to implement the narrow withholding regime."

to implement the new withholding regime."

"Treasury and the IRS have concluded that it is in the best interest of tax administration to extend the date of applicability of the final withholding regulations to permit taxpayers to make the computer system modifications necessary to comply with the new withholding regulations without the impediments caused by year 2000 concerns."

DRAFT



Interoffice Memorandum

To: Jim Sandt

From: AnnMarie Tiller and Brent Vasconcellos

Department: Corporate Tax Planning

Subject: Enron Credit Linked Notes Due 2005

Date: April 10, 2001

Background

On August 25, 2000, at the direction of the Enron Global Finance department, Enron North America ("ENA," a wholly-owned subsidiary of Enron Corp.) borrowed a total of \$499,995,000 from Citibank N.A. ("Citibank") in a transaction that took the form of a \$474,995,000 prepaid swap (the "Swap") and in a related transaction, Enron,Corp. borrowed \$25M from Citibank in the form of a direct loan. (ENA and Enron Corp. are hereafter referred to in the aggregate as "Enron.") To the extent the borrowing is characterized as a Swap, it appears on Enron's financial statements as a price risk management liability rather than a loan. The format is beneficial to Citibank as well because the transaction is reported as part of the bank's credit derivative activities rather than as a loan to Enron. [Travis Winfrey is checking into whether the \$5,000 difference is attributable to fees or a trading spread paid to Delta under the Swap or an error.]

In order to avoid utilizing Citibank's limited capacity for Enron credit, Citibank and Enron designed the Swap to be part of a larger contemporaneous transaction which had the result of transferring Citibank's Enron credit risk related to the Swap over to investors who purchased the securities of a special purpose trust established on August 11, 2000 by Citibank called the Enron Credit Linked Notes Trust (the "Trust").

Trust Notes

At the same time that ENA and Citibank entered into the Swap, the Trust issued \$500M 8.00% Enron Credit Linked Notes due 2005 (the "Notes") in a 144A offering and \$50M 9.00% Trust Certificates (the "Certificates") to one entity, the Royal Bank of Canada Europe Limited ("RBC"). The certificates in the Trust represent beneficial interests in the Trust and are subordinate in right of repayment to the Notes. [The Trust is also prohibited under the Indenture Agreement from creating, assuming, or incurring any-further indebtedness.] As discussed further below, since the Trust has only one owner, the Trust is disregarded for federal income tax purposes and is treated as a branch of RBC.

The Notes issued by the Trust are debt for federal income tax purposes. Enron's obligation under the "Swap" and the Trust's obligation to repay the principal amount of the Notes, along with any accrued and unpaid interest, both come due on August 15, 2005 to the extent the Notes have not been redeemed, accelerated, or repaid prior to that date. The interest accruing on the principal amount of the Notes at a rate of 8.0% is payable semi-annually in arrears on February 15 and August 15 of each year starting on February 15, 2001.

The Notes were issued at a slight discount of 99.827% to their stated redemption price at maturity or face amount giving rise to proceeds of \$499,135,000. The discount of \$865,000 falls below the de minimis threshold of Section 1273(a)(3) (66,250,000 computed as .0025 x \$500,000,000 x 5 years) and, thus, can be treated as zero.

Respect Integrity Communication Excellence

From 000-469-E(7922)

Fermanent Subcommittee on Investigations

EXHIBIT #193m

The Noteholders are part of a group called the "Secured Parties" who receive protection under a Collateral Security Agreement that provides them with a security interest in all of the assets of the Trust. Citibank is also a Secured Party although the bank's rights are superior to the rights of the Noteholders in all of the collateral except as to a credit swap running between Citibank and the Trust (the "Credit Swap") and any Enron Deliverable Obligations that may be delivered under the Credit Swap as described further below.

The Notes were sold to qualified institutional buyers ("QIBs") in the U.S. in reliance on Rule 144A of the Securities Act and to non-U.S. persons in reliance upon Regulation S of the Securities Act. Both sets of Notes were issued in fully registered form without interest coupons. [At least initially, approximately ___% of the Notes were sold to domestic holders and approximately ___% of the Notes were sold to non-US holders.]

Trust Investments

The \$550M in proceeds from the sale of the Notes and the Certificates must be used by the Trust to invest in a select group of investments (the "Trust Investments") defined to include (1) time deposits, promissory notes, and commercial paper of certain U.S. money center banks; (2) promissory notes of, or guaranteed investment contracts from, certain insurance companies; or (3) direct obligations of the United States government as long as the Trust Investments represent no more than nine separate obligors and each Trust Investment is scheduled to mature on or before the maturity date of the Notes. No Trust Investment may be purchased at a premium and no existing Trust Investment may be sold at a discount unless in default. At least initially, the Trust used the entire \$550M in funds received from the issuance of the Notes and Certificates, and as discussed below, from a one-time payment under the Credit Swap, to acquire a certificate of deposit issued by Citibank and carrying an interest rate of 6%.

The Trust obtains the funds necessary to pay interest on the Notes and yield on the Certificates from periodic payments received by the Trust from Citibank under the Credit Swap as described below.

EC 000850723

Credit Swap

The Trust and Citibank entered into the Credit Swap that provides for certain periodic payments and, upon an Enron Credit Event, calls for physical settlement of all or part of the Credit Swap. On a periodic basis as the Trust receives interest payments on the Trust Investments, the Trust delivers those funds to Citibank. On each February 15 and August 15, starting on February 15, 2001, Citibank is required to pay the Trust an amount equal to the interest accrued on the outstanding Notes and the yield on the Certificates.

In the absence of an Enron Credit Event, the Trust will repay the principal amount of the Notes and the Certificateholder's investment from the principal proceeds of the Trust Investments. If an Enron Credit Event should occur (defined to include an Enron failure to pay under the Credit Swap as well as the general condition of Enron being either insolvent or bankrupt), the Credit Swap permits Citibank to physically settle the Credit Swap by delivering to the Trust certain senior unsecured obligations of Enron called Enron Deliverable Obligations in exchange for a like amount of Trust Investments then held by the Trust. In this event, the principal amount of the Notes would be repaid from any proceeds recovered from any of the Enron Deliverable Obligations received by the Trust and any remaining Trust Investments then held by the Trust.

On the closing date of August 25, 2000, Citibank made a one-time payment under the Credit Swap to the Trust of \$865,000, an amount representing the discount on the Notes. This additional amount when added to the \$499,135,000 in proceeds received on the sale of the Notes and \$50M received on the sale of the Certificates equaled the \$550M amount required to be invested in Trust Investments on the Closing Date and serve as security for the Noteholders and Certificateholders during the 5-year tenor of the deal. Citibank received the \$865,000 by reducing the proceeds delivered to Enron under the Debt Security from the \$25M face amount to \$24,135,000.

Respect Integrity Communication Excellence Form 000-469-1 [5/92]

Trust Certificateholder

Certificateholders in the Trust are restricted to U.S. persons within the meaning of Section 7701(a)(3) or non-U.S. persons who can supply an executed Form W-8ECI or W-8BEN claiming the benefits of a treaty that provides for no withholding of U.S. tax with respect to payments to the Certificateholder. Certificateholders cannot exceed a number that directly or indirectly exceeds the 99-person threshold of the publicly traded partnership rules of Section 7704. Similarly, a Certificateholder must represent, warrant, and covenant that it has not and will not transfer any Certificate on or through an established securities market within the meaning of Section 7704(b)(1).

The Trust Agreement acknowledges that if there is more than one Certificateholder, then the Trust will be a partnership but as long as there is a single Certificateholder, the Trust will be disregarded within the meaning of Reg. 301.7701-3(b)(1)(ii). As the sole owner of the Trust, RBC will be treated as owning everything the Trust owns, including the \$550M Citibank certificate of deposit and the Trust's rights and obligations in a notional principal contract with Citibank.

RBC will recognize ordinary income in each calendar year equal to the interest accrued on the Trust Investments and periodic payments received by Citibank under the Credit Swap. See Reg. Section 1.446-3(e). RBC will deduct the expenses of the Trust, the periodic payments made by the Trust to Citibank under the Credit Swap, and interest paid out to the Noteholders. [RBC will also recognize one the five year tenor of the deal the upfront \$865,000 payment received from Citibank by amorting the amount Was the parenthetical in Section 10.9(a)(iv) stating "the Trust shall not be deemed to have paid any amount for the right to enter into the Credit Swap" intended to address this last minute change?]. See Reg. Section 1.446-3(f).

EC 00085072

Prepaid Swap and Direct Loan

References herein to the prepaid swap or the "Swap" are actually references to the combination of two contemporaneous cash-settled commodity swaps. The first such swap between Enron and Citibank is a cash-settled commodity swap on 22,238,748 barrels of crude oil. In return for an up-front payment of \$439,677,103 from Citibank, Enron is obligated to make (1) floating payments to Citibank each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity business days prior to the payment date; (2) one up-front floating payment to Citibank based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date; and (3) on the final floating payment date, a floating payment to Citibank equal to \$475,000,000 or, if less, the NYMEX spot price for 23,238,748 barrels of crude at the closing price three commodity business days prior to the payment date.

The second cash-settled commodity swap runs between Enron and Delta Energy Corp., a Cayman Islands exempt LLC ("Delta") under which Enron will receive an up-front payment of \$35,317,897 from Delta. Additionally, over the term of the swap, Delta is obligated to make (1) floating payments to Enron each January 14 and July 14 based on the NYMEX spot price for 568,024 barrels of crude at the closing price three commodity days prior to the payment date; and (2) one up-front floating payment to Enron based on the NYMEX spot price for 533,312 barrels of crude at the closing price three commodity business days prior to the payment date. In consideration for these payments under the second swap, Enron is obligated to make fixed payments of \$17,750,750 with an initial fixed stub payment of \$16,665,982.

Contemporaneously, Enron borrowed \$25M from Citibank in return for a Debt Security calling for semi-annual interest payments payable in arrears with an interest rate of 24.83% from August 25, 2000 to January 14, 2001 and an interest rate of 23.994% thereafter. The Debt Security has a maturity date of July 14, 2005.

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The result of the combination of the two swaps and the direct loan is that Enron will receive a net up-front payment of \$499,995,000 and Enron must make fixed payments to Delta on January 14 and July 14 of \$17,750,750. In five years, Enron must repay a total of \$500M to Citibank under the terms of both the swap and the Debt Security.

Note: Commodity swaps generally settle on the fifth day of the month following the payment date. As a result, Enron's obligation to make payments under the Prepaid Swap on January 14 and July 14 are actually settled on February 5 and August 5, respectively. A lead time of 10 days was considered necessary for the obligations of Citibank and the Trust under the Credit Swap and the obligations of the Trust to make interest and yield payments to the Noteholders and Certificateholders all on February 15 and August 15.

U.S. Withholding Taxes

With respect to the Noteholders, the Indenture Agreement provides that the United States Trust Company of New York as Indenture Trustee is responsible for furnishing to the Noteholders and taxing authorities any forms of information required by applicable federal or state law, including, but not limited to appropriate Forms 1099 and/or 1042-S and provide any other such information requested by a Noteholder in order for the Noteholder to prepare its tax returns. The Indenture Agreement further provides that if the Indenture Trustee is required to make a deduction and pay over withholding taxes, no additional amounts will be payable by the Trust in respect of those taxes.

Since all of the Notes are registered bonds, interest payable to non-U.S. holders will qualify for the portfolio interest exemption [upon receipt of the proof of the holders' foreign status]. Section 881(c)(2)(B) and Section 871(h)(2)(B); Reg. Section 1.1441-1(b)(4)(i). Additionally, such payments are exempt from information reporting and backup withholding....Reg. section 1.6049-5(b)(8); Reg. Section 1.6045-1(g)(1)(i).

If an Enron Credit Event should occur and Citibank physically settles the Credit Swap by delivering Enron Deliverable Obligations to the Trust in exchange for a like amount of Trust Investments then held by the Trust, interest on the Enron Deliverable Obligations will also qualify for the portfolio interest exemption. Section 871(h)(4)(C)(v)(I) and Section 881(c)(4).

With respect to the Certificateholder, no withholding forms should be necessary while the Trust is wholly owned by RBC and is thereby disregarded as a separate entity. If the Trust should become an independent entity for tax purposes, the Trust Agreement provides that the Trust will comply with any withholding requirements and that to the extent the Trust is required to withhold and pay over any amounts to any taxing authority with respect to distributions or allocations to any Certificateholder, any amount withheld will be treated as a distribution of cash and thereby reduce the amount of cash otherwise distributable to the Certificateholder.

Payments by Enron to Delta will qualify for exemption from withholding under Reg. Section 1.863-7(b)(1)....

Federal Tax Reporting.

The Trust Agreement provides that if Trust has more than one Certificateholder and becomes a partnership, Wilmington Trust Company ("Wilmington") as Trustee is responsible for maintaining the books of the partnership and filing such tax returns and making such elections as may from time to time be required as well as delivering Schedules K-1 to each partner. A side letter entered into contemporaneously between Enron Corp. and Wilminington provides that Wilmington will engage Enron Corp. to provide these services on its behalf. Since the Trust is a disregarded entity for federal income tax purposes, no income tax or information return should be required.

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Communication

EXCENE

Enron's rights and obligations under the Swap and the Debt Security with Citibank are for tax purposes the equivalent of a borrowing of \$500M with a five year tenor and a fixed rate of interest. In accordance with Reg. Section 1.446-3(g)(2)(iii)(A), the upfront payment together with the principal amount extended under the Debt Security should be amortized by assuming that \$[500]M represents ...

For book purposes, Enron will record the upfront payment under the Prepaid Swap in income and record Enron's obligation under the Prepaid Swap as a price risk management expense and liability. For tax purposes, these income and expense entries will be reversed with an M-1 adjustment.

Approximately \$[5]M in expenses have been paid to-dated by [Enron Corp.] in connection with the transaction. Enron paid up-front underwriting fees of \$1.925M to Salomon Smith Barney and \$825,000 to Lehman Brothers. Additionally, Enron is obligated to pay a "balance sheet" fee of 30 basis points per annum to [Salomon Smith Barney] calculated on the \$500M principal of the Notes or \$1.5M and a [\$275,000 fee to RBC as additional compensation for their role as Certificateholder?] [Travis Winfrey is still checking on the annual fee equal to 36 basis points...] [Finally, Enron must also pay approximately \$20,000 annually in fees to Wilmington Trust Company as Trustee of the Enron Credit Linked Notes Trust and \$25,000 to United States Trust Company of New York as Indenture Trustee.]

These up-front expenses were deducted in calendar year 2000 for book purposes so Enron will make an M-1 adjustment to amortize the expenses for tax purposes over the five year tenor of the transaction. Purely to accomplish a book accounting objective that has no tax implications, the implicit rate of return that Citibank receives under the Swap was set at a rate lower than Enron's cost of funds. When Enron's obligation under the Swap is fair valued starting on the closing date of the transaction at Enron's higher cost of funds rate, Enron will recognize a book (but not a tax) gain that is expected to offset the fees expensed by Enron for book purposes. Enron will make another M-1 adjustment to reverse this and all other fair value or mark-to-market adjustments made for book purposes.

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Interoffice Memorandum

To: Yosemite File

From: J. Brent Vasconcellos Department: Global Finance Tax

Subject: \$750 Million Yosemite Debt - Recourse v. Nonrecourse Date: November 26, 2001

FACTS

On November 18, 1999, Enron Corp. ("Enron"), an Oregon corporation, and Long Lane Master Trust IV ("Long Lane"), a Delaware statutory business trust, formed Yosemite Securities Trust I ("Yosemite"), a Delaware statutory business trust. Enron and Long Lane each contributed \$37.5 million in cash to Yosemite in exchange for certificates of beneficial interest that bear an annual yield of 11% (the "Certificates"). Yosemite then issued \$750 million worth of Linked Enron Obligations ("LEOs") to qualified institutional buyers in a Rule 144A offering under the Securities Act of 1933. On December 30, 1999, Whitewing Associates, L.P. ("Whitewing") purchased a portion of Enron's Certificates for a \$33.750 million face amount plus accrued but unpaid interest. After this purchase, the Certificates were owned 50% by Long Lane, 45% by Whitewing, and 5% by Enron.

The LEOs are supported by Yosemite's \$25 million note receivable from Enron (the "Enron Note") and an \$800 million note receivable from Delta Energy Corp. (the "Delta Note" and "Delta", respectively), a Cayman Islands exempt limited liability company. The Delta Note and the Enron Note are Yosemite's sole assets. The Enron Note is an unsecured recourse obligation of Enron. Yosemite's right to repayment under the Delta Note is secured by a series of swap transactions consisting of an \$800 million prepaid commodity swap between Delta and Enron North America Corp ("ENA")², a Delaware corporation, a fixed for floating commodity swap between Delta and Citibank, and a fixed for floating commodity swap between ENA and Citibank. Enron has provided a financial guarantee in favor of Citibank with respect to ENA's obligations under the fixed for floating swap and a financial guarantee in favor of Delta with respect to ENA's obligations under the prepaid swap.

For U.S. Federal income tax purposes, the Yosemite transaction is treated as follows: (1) Yosemite is treated as a partnership; (2) the Certificates are treated as evidence of a partnership interest in Yosemite; (3) Enron, Long Lane, and Whitewing are treated as partners in Yosemite; (4) The LEOs are treated as indebtedness of Yosemite; (5) the Delta Note is treated as Yosemite's partnership interest in Delta; and (6) the swap transactions are treated as a single \$800 million loan from Delta to ENA.

Permanent Subcommittee on Investigations
EXHIBIT #193n

Yosemite also has entered into a credit derivative agreement with Citibank in order to provide credit enhancement for the LEOs, but the Enron Note and the Delta Note ultimately support this agreement.
Note that the prepaid swap and fixed for floating swap with Delta and Citibank are in fact recorded on the financial accounting books of [RMT Liquids], a division of Risk Management and Trading Corp., a Delawage corporation and wholly-owned subsidiary of ENA.

ISSUES

- Are the LEOs characterized as a recourse or nonrecourse partnership liability of Yosemite pursuant to Section 752 and the regulations thereunder?
- 2. Assuming the LEOs should be characterized as a nonrecourse partnership liability of Yosemite, in what proportion should the liability be allocated to Yosemite's partners pursuant to Section 752 and the regulations thereunder?

CONCLUSIONS

- The LEOs should be characterized as a nonrecourse obligation under Section 752 and the regulations thereunder.
- The LEOs should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner's percentage interest in the Yosemite certificates.

DISCUSSION

Section 752 Regulations

Definition of a Nonrecourse Partnership Liability

A partnership liability is nonrecourse to the extent that no partner or a related person, (as defined by Section 267(b) or Section 707(b)(1)), bears the economic risk of loss as set forth in Section 1.752-2.3 A partner bears an economic risk of loss for a partnership liability to the extent that, if the partnership constructively liquidated, the partner or a related person would be obligated to make a payment to any person because the liability becomes due and payable and the partner or related person would not be entitled to reimbursement from another partner or a related person of another partner. Under a constructive liquidation, the following is deemed to occurs:

- a) All partnership liabilities become payable in full;
- b) All partnership assets, including cash, have a value of zero;
- c) The partnership disposes of all of its assets in a fully taxable transaction for no consideration (except for relief from liabilities for which the creditors' right of repayment is limited solely to one or more assets of the partnership);
 - d) All items of income, gain, loss, or deduction are allocated among the partners; and
 - e) The partnership liquidates.

Allocating Nonrecourse Partnership Liabilities Among Partners

³ Treas. Reg. § 1.752-1(a)(2).

⁴ Treas. Reg. § 1.752-2(b)(1).

⁵ Treas. Reg. § 1.752-2(b)(1)(i)-(v).

Once a determination has been made that a partnership has a nonrecourse liability, the liability must be allocated to the respective partners pursuant to Section 752 and the regulations thereunder. Generally, a partner's share of nonrecourse liabilities is equal to:

- a) The partner's share of minimum gain as determined under Section 704(c).6
- b) The amount of any taxable gain that would be allocated to the partner if the partnership disposed of the partnership property (in a taxable transaction) subject to one or more nonrecourse liabilities in full satisfaction of the liabilities and for no other consideration.⁷
- c) The partner's share of excess nonrecourse liabilities of the partnership (those liabilities not allocated among the partners under (a) or (b) above) as determined by reference to the partner's share in partnership profits.⁸

\$750 Million LEOs Issued by Yosemite

Nonrecourse Liability

Under a constructive liquidation of Yosemite pursuant to Section 1.752-1(b)(i)-(v), the following steps would be deemed to occur. The LEOs would become payable in full. The Enron Note and the Delta Note would have no value and Yosemite would be deemed to dispose of the Enron Note and the Delta Note in a taxable exchange for no consideration. If Yosemite is unable to repay the LEO holders, none of Yosemite's partners are obligated in any manner under the transaction documents to make a payment to any party. Enron's guarantee of ENA's swap obligations is not relevant because Yosemite's right to the swap repayment proceeds is derived solely from repayment of the Delta Note, which is deemed to have no value under the Section 752 constructive liquidation. Therefore, because Long Lane, Whitewing, and Enron would not bear the economic risk of loss with respect to the LEOs, the LEOs are a nonrecourse liability of Yosemite.

Allocation of the LEOs Among Enron, Long Lane, and Whitewing

Pursuant to the Yosemite trust agreement, a Certificate holder is entitled to an annual yield equal to 11% on the face amount of the holder's proportionate share of Certificates. Yield is payable semiannually as a distribution from Yosemite to the Certificate holder. Further, upon termination of the Yosemite transaction, and to the extent that sufficient value exists within Yosemite after the LEOs are fully repaid, a Certificate holder is entitled to a distribution from Yosemite equal to the face amount of the holder's proportionate share of Certificates. Accordingly, Long Lane, Whitewing, and Enron are each entitled to an 11% annual yield on their proportionate share of Certificates and, upon termination of the Yosemite transaction, repayment of the face amount of their proportionate share of Certificates.

Therefore, pursuant to the allocation method for nonrecourse liabilities under Section 752 and the regulations thereunder, the LEOs (principal amount plus accrued but unpaid interest) should be allocated among Long Lane, Whitewing, and Enron in proportion to each partner's percentage ownership of the Certificates.

⁶ Treas. Reg. § 1.752-3(a)(1).

⁷ Treas. Reg. § 1.752-3(a)(2)

\$750 Million Yosemite Debt - Recourse v. Nonrecourse Page {PAGE} {DATE}

CC: J. Ginty
D. Dewar
E. Locklear

From: Sent: To: Subject:

Emmett, lan Friday, December 08, 2000 5:23 AM Moran, James RE: Prepaid Swap

I seem to be missing something here, sorry, but wht are MS involved in the trade at all ?

----Original Message---------Original Message---From: Moran, James
Sent: 08 December 2000 11:16
To: Emmett, Ian; Abib, Osmar; Payne, Sarah; Mcelwee, Greg; Tjandramaga,
Nicolas
Subject: RS: Prepaid Swap

It is my understanding that the financings works as follows.
The first leg is CSFB pays ENA \$150MM and ENA agrees to pay CSFB the dollar value on a fixed number of barrels of oil and a spot price every [3] months and \$150MM at maturity, 9 months.

The second leg has csfb paying Morgan Stanley the "variable" dollars just received from ENA and MS pays us in dollars an amount equal to \$150MM times a fixed interest rate. The fixed interest rate is 9 month LIBOR + 75bps, paid [3] monthly.

The net effect for ENE is raising \$150MM at L + 75bps for 9 months off-balance balance sheet. As the swap is booked in their oil swap book and not treated as debt.

I'm with ENE this morning, but would welcome discussing this with you sometime before 8. My number is 5-9176.

Permanent Subcommittee on Investigations EXHIBIT #194a

SR00038448

From:

Wootton, Steven

Sent: To: Cc:

Thursday, December 14, 2000 2:08 PM Tjandramaga, Nicolas; Emmett, Ian

Smailes, Geoff; Moran, James; Payne, Sarah; Clemow, Sarah; Newton, Karen; Johnson,

Subject:

RE: URGENT / decision required- status on Eneron oil linked loan

I have separately forwarded the below flows to our Operations colleagues so that they can finalise the confirmation documentation. They had some issues. I had understood from you that we have to accept Enron's documentation and that Enron were providing the confirmations on transactions between CSFB and Enron - please can you confirm this, as Operations understand that Enron don't usually use this form of documentation, do not use the 2000 Definitions, and are

I have raised issues to date on reputational risk and this transaction will presumably not proceed until there is a clear sign-off from RRR. If this is an accounting-driven transaction, and I had understood before that it is, the Firm's standard representations for accounting driven transactions will presumably be required to be inserted in the confirmations? Will this cause a problem for the counterparty if we have to use their documentation forms? Have you asked for RRR sign-off on not including such representations? I have also asked whether each leg of the transactions is on its own account, at market - could you confirm for the below cash-flows.

On the documentation, I have received a call from James Moran saying that the guarantee is to be executed sometime today and so he has proposed he should be the contact person included in the guarantee. Please, instead, refer them to the contact details provided in the extant ISDA master agreement between us. I have raised issues on the guarantee and agreed with Nicolas that I would raise these with Ernon if the trade went live. The contact person at Ernon has gone home some time ago. I understand that the guarantee is being executed and I have not had the opportunity to negotiate it. I therefore assume that front office is happy with the guarantee without the benefit of LCD negotiating it. I have mentioned my most serious and obvious concerns before there is no liability, for consequential loss (eg what happens if we cannot perform to MS and they sue us for damages and consequential damages); they have 5 days grace to perform on the guarantee; there are no representations as to enforceability, in addition, as you wile so on the face of the document, we are subject to any set-offs Enron would like to claim and the guarantee is expressed to be effective throughout the life of the swap transaction (it should say after discharge in full of the swap transaction). I also assume that front office is happy to take the risk that the guarantee is unenforceable as no due diligence has been performed on the guarantee.

Regards

Steve

-Original M

From: Sent: To: Cc: Subject:

Wootton, Steven URGENT / decision required- status on Eneron oil linked loan

just came of the phone with James Moran / Sarah Payne

SUMMARY OF THE DEAL

SUMMARY OF THE DEAL Enron receives 150m \$ from CSFB CSFB receives Y barrels of floating oil at the end of every 3m for 9m (with a value to cover Libor + 75bp, roughly 6.5m\$

CSFB receives X barrels at the end of the 9m period (with a value to reimburse the S150m notional)
CSFB enters pays the Y barrels of oil in an oil swap with MS to receive fixed S amounts to cover interest rate charges (notional roughly 3* 90,000bbl/m = 270,000bbls)

Permanent Subcommittee on Investigations

EXHIBIT #194b

5800041097

From: Sent: To: Cc: Subject:

Moran, James Thursday, December 14, 2000 3:37 PM Smailes, Geoff Tjandramaga, Nicolas; Abib, Osmar, Payne, Sarah Enron — Prepaid Oil swap

Geoff.

As you are aware, we are expecting to close on a prepaid oil swap with Enron North America (as guaranteed by Enron Corp.) tomorrow Dec. 15. Nick indicated that he required getting your final approval on the transaction. Regarding approvals, CRM has approved the required Enron (\$200 million) and Morgan Stanley (\$40 million) PE limits.

I just want to highlight several issues, which should assist you in providing your approval to Nick.

Risk – IBD is assuming 100% of "any-and-all" losses that may result from this transaction.
 Income – All income from the transaction is for your trading book, \$990,000 (10bps upfront fee on \$150MM and a per annum interest margin of 75 bps on \$150MM for 9-months.).
 Relationship – Entron is one of Firm's top accounts, if not the number one relationship. Osmar Abbi is the Primary on the name. The importance of the transaction is amplified by several sizable assignments, which CSFB has been unable to complete under Enron's timetable and the fact that we have informed Ben Glisan, Treasurer of Enron, we are working to close tomorrow. This prepaid swap transaction is Ben's "pet" project.

Further, I want to clarify the reputation risk of this transaction. I have had several conversations with Marc Steglitz and he indicated to me that he would be okay with the transaction if the Treasurer or CFO of Enron North America signed the trade confirmation. I have discussed this condition with the Client, who understand our request, and will have the confirmation signed by either the Treasurer or CFO.

I appreciate your attention to this very important transaction and I apologies for interrupting your vacation. If I can be of any assistance, please fell free to call me at the office (212) 325-9176 or at home at (973) 377-5286 at anytime.

James P. Moren
Director
CREDIT | FIRST
SUISSE | BOSTON
(212) 325-9176 (phone)
(212) 325-9615 (fax)
James.Moran@CSFB.com (email)

Permanent Subcommittee on Investigations EXHIBIT #194c

SR00037765

From: Sent: To:

Tjandramaga, Nicolas Friday, December 15, 2000 7:48 AM Moran, James RE: docs/guarantee approval

Subject:

REDACTED

lessage----Tjandramaga, Nicolas 15 December 2000 12:16 Moran, James FW: docs/guarantee approval

Message --Tjandramaga, Nicolas
15 December 2000 12:04
Steglitz, Marc
Wootton, Steven; Emmett, Ian
FW: docs/guerantee approval

hi marc

-we need your Ok on the below described trade
-Enron has confirmed that it will be their Treasurer or CFO that will sign the deal
-very important for them is that the does are as standard as possible and DO NOT include any
representations on accounting driven transactions

your approval is the only thing missing right now for the trade to go through today (morning NY time) I will call you later on

thanks, Nicolas

just came of the phone with James Moran / Sarah Payne

SUMMARY OF THE DEAL
Enron receives 150m \$ from CSFB
CSFB receives Y barrels of floating oil at the end of every 3m for 9m (with a value to cover Libor + 75bp, roughly 6.5m notional)
CSFB receives X barrels at the end of the 9m period (with a value to reimburse the \$150m notional)
CSFB enters pays the Y barrels of oil in an oil swap with MS to receive fixed \$ amounts to cover interest rate charges (notional roughly 3* 90,000bbl/m = 270,000bbls)
CSFB enters pays the X barrels of oil in an oil swap with MS to receive fixed \$ amounts for principal

Permanent Subcommittee on Investigations

EXHIBIT #194d

SR00037769

From:

Sent: Subject: Moran, James Monday, September 17, 2001 8:28 AM Abib, Osmar RE: Enron Oil Trade

We agreed to do the deal as it was a special request/favor from Ben. Not sure if we got anything specific other than a relationship building chip.

---Original Message--

rignar ressage
From: Abib, Osmar
Sent: Monday, September 17, 2001 9:19 AM
To: Moran, James
Subject RE: Erron Oil Trade

Please remind me as to who at Enron originally asked for this deal and why we agreed to do it (and most importantly what did CSFB get from it besides being nice guys once again).

I am sure that Bayo will be coming at me on this given the email traffic below. Thanks.

— Original Message — From: Moran, James Moran, James Moran, James Morany, September 17, 2001 8:11 AM To: Ogurlesi, Aldesbyo; Abb, Osmar Subject: PN: Enron Oil Trade

E-mail traffic from when the facility was established last December.

Geoff - IBD will assume the credit risk from FiD and your book for this nine-month exposure to Enron ansing from this oil-linked loan.

Adrian

no more Q';s so long as Adrian is on board. Lets print

—Original Message—
From: Abib, Osmar
Sent: 18 December 2000 15:34
To: Smalles, Geoff, Tjanforanga, Nicolas
Cc: Cooper, Admar, Emmett, Ian; Moran, James
Subrject: RE: Erron Oil Trade ----Origin From: Sent: To: Cc: Subject:

As we discussed last Friday, IBD (Enron coverage team) is confirming our willingness to take the credit risk associated with this transaction.

Please let me know if you have any other questions. Thanks.

Osmar Abib Managing Director

Permanent Subcommittee on Investigations

EXHIBIT #194e

CHACATTAGA

From: Sent: To: Cc: Subject:

Abib, Osmar Friday, September 21, 2001 5:37 PM Moran, James McCabe, Brian RE: PLEASE CALL ME IMMEDIATELY / ENRON-RELATED CREDIT ISSUE

LIFE ALWAYS GETS INTERESTING ON FRIDAY AFTERNOONS!

- 1. Cheryl Lipshutz called me. She was panicked about your comments concerning an "international bank crisis which CSFB needs to help resolve" (what are you talking about!!!) and wanted to let us know that \$40 million is probably a doable number for her but that she can't confirm until Monday afternoon because the "right" people are on airplanes today. Does waiting until Monday work for you? Please let us know and/or call Cheryl yourself.
- 2. Furthermore, I just got a call from Barry Schnapper, Dan Boyle and Tim Despain about an emergency request for a \$150 million prepaid facility (they want to work over the weekend and fund next week???)in return for the left pole position on a \$18 benchmark bond deal (obviously someone just whiffed on them). I told them that we were basically full up on credit and that we already had a \$150 million renewal of a prepaid in progress. They were not aware of this renewal and were going to check up on it. In any case, this looks like incremental credit to CSFB which I am not sure we can handle at this point. I also reached Bayo and he said that our response would have to wait until Monday when he can talk to Tony James, O'Brien, Maletta, etc. [I assume that he doesn't want to make any decisions over the weekend given the unsettled nature of our world these days). Your thoughts?

Please call Brian or me ASAP. Thanks.

----Original Message---From: Moran, James
Sent: Friday, September 21, 2001 5:25 PM
To: Abib, Osmar
Subject: Re: PLEASE CALL ME IMMEDIATELY / ENRON-RELATED CREDIT ISSUE

On a train home, will call in 40 minutes. What's up?

----Original Message---From: Abib, Osmar <osmar.abib@csfb.com>
To: Moran, James < James.moran@csfb.com>
Sent: Fri Sep 21 18:19:29 2001
Subject: PLEASE CALL ME IMMEDIATELY / ENRON-RELATED CREDIT ISSUE

Permanent Subcommittee on Investigations EXHIBIT #194f

SR00037319



CREDIT SUISSE FIRST BOSTON CORPORATION

One Madison Avenue New York, NY 10010-3629 email: gary.lynch@csfb.com Telephone 212 325 4321 Telefax 212 325 2121

GARY G. LYNCH Global General Counsel Executive Board Member

April 24, 2002

The Honorable Carl Levin Chairman Permanent Subcommittee on Investigations Committee on Governmental Affairs United States Senate Washington, D.C. 20510-6260

Dear Chairman Levin:

Please find below and enclosed information and documents responsive to the April 10, 2002 request of your Subcommittee for certain information from Credit Suisse First Boston Corporation ("CSFB") and Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ").

It is important to note that prior to their merger in November 2000, CSFB and DLJ were separate companies, each of which independently provided services to Enron (among many other corporate clients). As independent firms, CSFB and DLJ were largely unaware of the work that the other company (and numerous other investment banking firms) was conducting for Enron, except for that which was publicly disclosed.

Our responses and document production reflect our best efforts as of the date of this letter to obtain and review responsive information and documents, consistent with our understanding of the scope of the request following discussions with your staff.

CSFB respectfully requests that the information and documents provided herewith be kept strictly confidential, given their proprietary nature.

1. Response to Request No. 1: Attached as Appendix 1 is a list of Enron-related transactions involving CSFB or DLJ. Attached as Appendix 2 is a list of CSFB investments and DLJ investments in Enron-related SPEs or related partnerships. Both Appendix 1 and Appendix 2 have also been supplied to the House Committee on Energy and Commerces.

Permanent Subcommittee on Investigations
EXHIBIT #194g

Also provided herewith are documents relating to LJM Cayman and LJM2, and the Marlin, Osprey and Iguana transactions. CSFB notes that CSFB was a passive investor in LJM Cayman; that CSFB and DLJ are passive investors in LJM2, both investments having been made independently prior to the November 2000 merger of CSFB and DLJ; and that CSFB and DLJ do not have (and have not ever had) any control over or management role with either LJM Cayman or LJM2. CSFB notes further that Marlin, Osprey and Iguana were Rule 144A offerings which were made to qualified institutional buyers, and that Marlin and Osprey were presented to and rated by rating agencies.

- 2. <u>Response to Request No. 2</u>: Documents responsive to this request are included in the documents provided in response to Request No. 1.
- 3. Response to Request No. 3: Documents responsive to this request are included in the documents provided in response to Request No. 1. CSFB notes that neither CSFB nor DLJ was on the Advisory Committee of LJM2 Co-Investment, L.P.
- 4. <u>Response to Request No. 4</u>: Documents responsive to this request are included in the documents provided in response to Request No. 1.
- 5. Response to Request No. 5: Documents responsive to this request are included in the documents provided in response to Request No. 1.
- 6/7. <u>Response to Requests Nos. 6 and 7</u>: ERNB Ltd. is a subsidiary of Credit Suisse First Boston (International) Holding AG. ERNB Ltd. is a limited partner of LJM Cayman which in turn is a limited partner of LJM Swap Sub. LJM SwapCo is a general partner in LJM Swap Sub.

The equity owner of Parrothead II, LLC is BSCS XVIII, an affiliate of Lord Securities. DLJ International Capital and DLJ Capital Funding hold debt of Parrothead II, LLC.

8. Response to Request No. 8: CSFB is not aware of any individuals at CSFB or DLJ who invested in LJM. CSFB responds further that, while not an investment in an LJM related entity, twelve DLJ employees (identified in Appendix 3) did invest in an offering by Osprey in October 2000 (sometimes called "Osprey III") through an investment vehicle called OA Investments.

Please be advised that the individuals listed in Appendix 2 have been notified of their rights pursuant to Section 502 of the Gramm-Leach-Billey Act (Pub. L. No. 106-102, 113 Stat. 1338 (1999)) and given CSFB their consent to provide nonpublic personal information in connection with this response. We note that this nonpublic personal information is further subject to the legal prohibition on reuse of nonpublic personal information under Section 502(c) of the Gramm-Leach-Billey Act.

9. Response to Request No. 9: CSFB is not aware of any presentations made by CSFB or DLJ to Enron or LJM relating to Marlin, Osprey or Iguana.



Should you have any questions or require further information, please do not hesitate to contact Joseph Seidel in our Washington office at (202) 354-2802.

Sincerely,

Global General Counsel

cc: The Honorable Susan M. Collins Ranking Minority Member Permanent Subcommittee on Investigations

APPENDIX 1

As previously noted, Credit Suisse First Boston (CSFB) and Donaldson, Lufkin & Jenrette (DLJ) were separate business entities prior to their merger in November 2000. Until that date, each firm provided services to Enron and many other corporate clients on an independent basis, and competed with one another for business.

In addition to the services listed below, CSFB and DLJ may also have competed to provide services that Enron awarded instead to another of the various investment banks that provided services to Enron.

CSFB

CSFB provided the services listed below that are responsive to request number 1. Where known, fee information and dates of engagement have been provided.

From 1997 to the present, CSFB participated with over 50 other banks in providing credit revolver facilities to Enron with undrawn commitments.

In July 1997, CSFB underwrote an offering by Enron of \$200 of million public notes and received a fee of \$125,213.

In November 1997, Goldman, Sachs & Co. was the lead underwriter of a \$100 million offering of public notes for Enron Oil and Gas. The underwriting syndicate included Merrill Lynch & Co., Morgan Stanley Dean Witter and CSFB. CSFB collected a fee of \$89,363.

In May 1998, Goldman Sachs & Co., Lehman Brothers and CSFB participated in an underwriting syndicate of 15 million of Enron secondary stock, which raised \$750 million. CSFB earned a fee of \$2,331,895.

In May 1998, Chase Manhattan Bank served as the lead bank in a \$500 million revolving credit facility for the JEDI II project. CSFB provided \$40 million of participation. CSFB earned a syndication fee of \$5,685,000 and received annual interest payments.

In November 1998, Barclays Bank acted as the administrative agent and served with CSFB as co-arranger of a debt refinancing for the JEDI I project. CSFB underwrote \$162.5 million of the total \$325 million credit facility. CSFB received a syndication fee of \$2,185,000 and annual interest payments.

In November 1998, CSFB underwrote an offering of \$250 million of Enron public notes and received a fee of \$2,114,755.

In 1999, Chase Manhattan Bank led a lending syndicate that provided a \$400 million credit revolver facility to Enron Oil and Gas. CSFB made a \$12 million commitment. CSFB received a fee of \$70,993.

In 1999, CSFB made lending commitments of \$35.6 million and \$3.6 million to Dabhol Power Company. CSFB received a fee of \$2.5 million, as well as interest payments, in connection with the \$35.6 million commitment. CSFB received interest payments in connection with the \$3.6 million commitment.

In 1999, CSFB provided M&A advice on an asset divestiture by Enron Oil and Gas and received a fee of \$7 million. The date of engagement was December 15, 1998.

In February 1999, CSFB co-managed with DLJ an approximately \$750 million common stock offering of 12 million shares of Enron. The underwriting syndicate included Lehman Brothers, Merrill Lynch & Co., Morgan Stanley Dean Witter, Prudential Securities, Salomon Smith Barney and Schroder & Co. Inc. CSFB earned a fee of \$10,347,810.

In April 1999, NationsBank/Bank of America acted as lead underwriter for an \$850 million debt offering of East Coast Power LLC. CSFB participated in the underwriting syndicate and received a fee of \$2,087,564.

In June 1999, Merrill Lynch International served as lead manager of an underwriting syndicate for the initial public offering of 36,600,000 shares of Azurix, which raised \$695,400,000. The underwriting syndicate included Paine Webber International, ABN AMRO Rothschild, HSBC Investment Banking and CSFB. CSFB earned a fee of \$4,596,521.

In June 1999, CSFB provided M&A advice on the sale of an interest in East Coast Power LLC to El Paso Energy, Inc. and earned a fee of \$850,000. The date of engagement was June 1, 1999.

In August 1999, CSFB provided M&A advice on the potential divestiture of Portland General and received a fee of \$1,150,000. The date of engagement was August 13, 1999.

In February 2000, CSFB co-led with DLJ a bond offering for Azurix of \$440 million and £100 million of debt. Merrill Lynch & Co. and Chase Securities Inc. participated in the syndicate. CSFB received a fee of \$2,629,564.

In March 2000, CSFB underwrote a private money market note offering of \$1 billion for Enron and earned a fee of \$684,464.

In May 2000, CSFB provided M&A advice on the acquisition of MG plc. and earned a fee of \$4,500,000. The date of engagement was May 9, 2000.

In June 2000 and November 2000, loan syndicates were formed to provide credit facilities to LJM2. Chase Manhattan Bank served as the lead bank for the June 2000 \$65 million facility, of which CSFB raised \$10 million. Dresdner served as the lead bank for the November

2000 \$200 million facility, of which CSFB raised \$30 million. CSFB earned fees of \$73,608 and \$303,283.

In October 2000, after the announcement of their merger, CSFB and DLJ co-led the initial public offering of 24 million shares of The NewPower Company, which raised \$504 million. The underwriting syndicate included Chase H&Q, CIBC World Markets, Paine Webber Incorporated, Salomon Smith Barney and DLJ direct Inc. CSFB and DLJ earned a combined fee of \$15,700,825.

In October 2000, Deutche Bank Alex. Brown was the joint book-running manager with CSFB of a Rule 144A offering of \$750 million and £315 million of debt and \$50 million of equity for the Osprey III project. Lehman Brothers and UBS Warburg LLC served as comanagers. CSFB earned a structuring fee of \$1,347,071 and a debt capital markets fee of \$992,804. The date of engagement was September 28, 2000.

In December 2000, CSFB was the lead underwriter in a synthetic lease that provided a \$600 million debt revolver for a project called TurboPark/E-Next Generation. CSFB earned a fee of \$5,125,000.

In December 2000, CSFB financed a \$150 million oil swap and earned a fee of approximately \$870,000. The oil swap was set to mature in September 2001, but was rolled over an additional year at the request of Enron with CSFB's consent.

In early 2001, CSFB provided M&A advice on the sale of eight "peaking" power plants and earned a fee of \$10,661,950. The date of engagement was October 30, 2000.

In April 2001, CSFB provided M&A advice on a potential EBS/movie studios joint venture and earned fees totaling \$300,000. The date of engagement was April 12, 2001.

In July 2001, Deutsche Bank Alex. Brown served as the joint book-running manager with CSFB to refinance the Marlin entity through a second Rule 144A offering of two debt tranches of \$475 million and £515 million. CSFB earned a structuring fee of \$1,143,175 and a debt capital markets fee of \$1,604,288. The date of engagement was July 11, 2001.

In December 2001, CSFB Europe (London) underwrote a £50 million private placement debt offering for Wessex Water Services Finance plc. and earned a fee of £250,000.

From January 1999 through the present, CSFB provided M&A advice for the potential divestiture of an Enron power plant and other assets. To date, CSFB has identified \$250,000 of fees in connection with this work. The dates of engagement were January 9, 1999, November 17, 2000, November 29, 2001 and December 17, 2001.

<u>DLJ</u>

DLJ provided the services listed below that are responsive to request number 1. Where known, fee information and dates of engagement have been provided.

From 1997 to the present, DLJ participated with over 50 other banks in credit revolver facilities for Enron.

In November 1997, DLJ advised Enron Global Power and Pipelines LLC in connection with going private and received a fee of \$2.5 million. The date of engagement was May 14, 1997.

In 1998, DLJ provided advice on a potential offering of \$200 million of Enron Energy Services LLC common stock and received a fee of \$250,000. The date of engagement was December 16, 1997.

In 1998, DLJ provided advice on the sale of a Pittsburg, California power plant project for \$50 million. The transaction closed in 1998 and DLJ received a fee of \$1,150,000.

In May 1998, DLJ led an underwriting syndicate of 15 million shares of Enron secondary stock, which raised \$750 million. Goldman Sachs & Co., Lehman Brothers and CSFB also participated in the underwriting syndicate. DLJ earned a fee of \$10,025,933.

In December 1998, BT Alex. Brown was the joint book-running manager with DLJ of a Rule 144A offering to institutional investors of approximately \$1 billion of debt and \$125 million of equity in connection with the Marlin I entity. DLJ earned a structuring fee of \$2,560,000, a private placement fee of \$1,250,000, and a debt capital markets fee of \$2,423,670. The date of engagement was October 20, 1998.

In December 1998, Chase Securities, BT Alex. Brown and DLJ co-lead managed a \$415 million bank facility and co-lead managed the private placement of \$60 million in equity in connection with the Firefly entity. DLJ received a syndication fee of \$1,125,000, a private placement fee of \$1 million, and other revenues of \$922,519. The date of engagement was December 28, 1998.

In February 1999, DLJ co-managed with CSFB an approximately \$750 million common stock offering of 12 million shares of Enron. The underwriting syndicate included Lehman Brothers, Merrill Lynch & Co., Morgan Stanley Dean Witter, Prudential Securities, Salomon Smith Barney and Schroder & Co. Inc. DLJ earned a fee of \$3,283,937.

In June 1999, Merrill Lynch International served as lead manager of an underwriting syndicate for the IPO of 36,600,000 Azurix shares, which raised \$695,400,000. The underwriting

syndicate included Paine Webber International, ABN AMRO Rothschild, HSBC Investment Banking, DLJ and CSFB. DLJ earned a fee of \$6,051,203.

In September 1999, Deutsche Bank Alex. Brown was the joint book-running manager with DLJ of a Rule 144A offering of \$1.4 billion in debt and \$125 million in equity in connection with the Osprey entity. Bear Stearns & Co. Inc. and Salomon Smith Barney acted as joint lead managers. DLJ earned a structuring fee of \$3,262,500, a debt capital markets fee of \$2,317,622, and a private placement fee of \$500,000. The date of engagement was September 16, 1999.

In November 1999, Salomon Smith Barney served as lead manager of a syndicate to refinance \$750 million of Enron bank loans in capital markets. Deutsche Banc Alex. Brown and Greenwich NatWest served as co-lead managers. DLJ was listed as a member of the syndicate. DLJ did not receive a fee for the transaction.

In December 1999, DLJ managed a Rule 144A offering of \$202 million in debt and \$6.4 million in equity in connection with the monetization of senior notes of Enron. DLJ earned a structuring fee of \$128,000 and a debt capital markets fee of \$202,000.

In February 2000, DLJ co-led with CSFB a bond offering for Azurix of \$440 million and £100 million of debt. Merrill Lynch & Co. and Chase Securities Inc. participated in the syndicate. DLJ received a fee of \$3,986,827.

In 2000, DLJ provided M&A advice on the sale of a right to build a power plant in Oregon and received a fee of \$750,000. The date of engagement was January 14, 2000.

In July 2000, DLJ managed a Rule 144A "private/private" offering of \$95 million in debt and \$30 million in equity in connection with the funding of the synthetic sale of interests in European power assets. DLJ earned a private placement fee of \$675,000 and a structuring fee of \$3,075,000. A copy of an unsigned engagement letter lists the date of engagement as July 11, 2000.

In July 2000, DLJ raised additional equity capital investments of \$70 million in connection with the Osprey entity. DLJ earned a fee of \$500,000.

APPENDIX 21

As previously noted, Credit Suisse First Boston (CSFB) and Donaldson, Lufkin & Jenrette (DLJ) were separate and independent business entities prior to their merger in November 2000.

CSFB

CSFB provided the services listed below that are responsive to request number 1. Where known, fee or other return information has been provided.

In June 1997, Citibank acted as lead agent in a synthetic lease transactions made in connection with Enron / SSBT Trustee-Enron Omaha Trust, which was renewed in December 2000 as Enron /JT Holdings/ CXC / SSBT. CSFB participated by providing \$10 million of a \$25 million credit facility and \$56.6 million of a \$110 million credit facility. The CSFB Credit Committee authorized the transactions. CSFB earned a fee of \$52,130 and received annual interest payments.

In November 1998, Barclays Bank acted as the administrative agent and served with CSFB as co-arranger of a debt refinancing for the JEDI I project. CSFB underwrote \$162.5 million of the total \$325 million credit facility. The CSFB Credit Committee authorized the transaction. CSFB earned a syndication fee of \$2,185,000 and received annual interest payments.

In December 1998, Citibank served as lead bank for an underwriting syndicate that provided \$750 million of debt refinancing in connection with the financing of international

¹For purposes of completeness, certain transactions described in Appendix 1 are also described in Appendix 2.

Enron assets. CIBC and WestLB acted as co-arrangers. CSFB participated in the underwriting syndicate. The CSFB Credit Committee authorized the transaction. CSFB earned a syndication fee of \$3,509,000 and an interest payment.

In June 1999, Chase Manhattan Bank served as lead agent for a synthetic lease transaction that raised \$310 million in connection with Brazos Office Holdings II, L.P. (formerly Enron – Houston HQ). CSFB was a syndicate participant and raised \$13 million. The CSFB Credit Committee authorized the transaction. CSFB earned a fee of \$44,443 and interest payments.

In June 1999 CSFB invested \$7.5 million, and in December 1999 CSFB invested \$45.1 million, in the LJM1 entity. NatWest was an equal investor. The CSFB Investment Banking Committee authorized the investment. CSFB received an overall return of approximately \$31 million on its investment. In September 1999, CSFB provided a bridge loan of \$25 million to the LJM1 entity, which was repaid in December 1999. CSFB received a fee of \$25,000, as well as interest, in connection with the loan.

In December 1999, Merrill Lynch & Co. served as the lead investor of an investment commitment for LJM2 Co-Investments L.P. CSFB provided a \$10 million investment commitment and paid in net capital of \$1.7 million. CSFB lost money in connection with the investment. The CSFB Investment Banking Committee authorized the transaction.

In December 2000, CSFB was the lead underwriter in a synthetic lease that provided a \$600 million debt revolver, \$75 million of which was retained by CSFB, for a project called TurboPark/E-Next Generation. The CSFB Credit Committee authorized the transaction. CSFB earned a fee of \$5,125,000.

In April 2001, Banc of America Securities LLC and Royal Bank of Scotland served as co-arrangers of a bank financing transaction for Brazos VPP. CSFB provided \$15 million of debt. The CSFB Credit Committee authorized the transaction. No fees were recorded prior to the Enron bankruptcy.

In July 2001, Deutsche Banc Alex. Brown served as co-lead with CSFB on a refinancing of the Marlin entity through a second Rule 144A offering comprising two debt tranches of \$475 million and £515 million. ABN Amro Incorporated, Banc of America Securities LLC, CIBC World Markets, Dresdner Kleinwort Wasserstein and JP Morgan served as co-managers. CSFB bought \$2.5 million of the equity certificates in the transaction. The CSFB Credit Committee authorized the transaction. CSFB received no fees relating to its investment.

In August 2001, CIBC assigned to CSFB a note under which KStar VPP Trust owed \$153 million. The transaction was approved by CSFB Credit Risk Management. No revenues have been located for the transaction.

In September 2001, Barclays Bank structured and provided debt to a \$275 million debt and equity transaction in which CSFB made an \$8.2 million equity investment. The CSFB Credit Committee authorized the transaction. CSFB earned a fee of \$1 million.

In September 2001, CSFB served as lender in a transaction raising \$23.9 million of debt for the monetization of Enron Heating, Ventilation and Air Conditioning Company. CSFB also acquired \$1.1 million of equity. The CSFB Credit Committee authorized the transaction. No fees were received by CSFB before the bankruptcy filing.

DLJ

DLJ provided the services listed below that are responsive to request number 1. Where known, fee or other return information has been provided.

In December 1998, Chase Securities, Bankers Trust and DLJ each provided one-third of the bank debt financing in a \$415 million syndicated bank facility in connection with the Firefly project. The DLJ Investment Banking Committee authorized the transaction. DLJ received a syndication fee of \$1,125,000.

In December 1999, Merrill Lynch & Co. served as the lead investor of an investment commitment to LJM2 Co-Investments L.P. DLJ provided a \$5 million investment commitment and paid in net capital of \$900,000: DLJ lost money in connection with the investment. The transaction was authorized by the DLJ Fund Investment Partners III Investment Committee.

In December 1999, DLJ managed a Rule 144A offering of \$202 million in debt and \$6.4 million in equity in connection with the monetization of senior notes of Enron. DLJ bought the \$6 million of equity certificates in the transaction. The investment was authorized by a committee of Investment Banking and Merchant Banking representatives.

In October 2000, Deutsche Bank Alex. Brown was the joint book-running manager with DLJ of a Rule 144A offering of \$750 million and £315 million of debt and \$50 million of equity in connection with Osprey III. DLJ bought \$42.5 million of the equity certificates in the transaction. Lehman Brothers and UBS Warburg LLC served as co-managers. DLJ received no fees in connection with its investment.

Appendix 3

Further Response to Request No. 8

Osprey was a special purpose entity that was financed overall by \$265 million in equity and approximately \$2.5 billion in debt from outside investors. Osprey I was established with an initial financing of \$125 million in equity and \$1.4 billion in debt. Osprey II was a follow-on financing that added \$70 million in equity. Osprey III was a second follow-on financing that added \$750 million in debt, Euro 315 million in debt and \$50 million in equity. In October 2000, the twelve DLJ employees listed in this Appendix 3 made equity investments in Osprey III, each of which we understand to be currently in default, through an investment vehicle called OA Investments. These personal investments amounted to less than four tenths of one per cent of the equity in the Osprey structure.

<u>Name</u>	<u>Firm</u>	Date of Investment	<u>Amount</u>
Michael A. Ranger	DLJ	October, 2000	\$ 200,000
Laurence Nath	DLJ	October, 2000	\$ 150,000
Paul A. Davis	DLJ	October, 2000	\$ 100,000
Jeffrey Quinn	DLJ.	October, 2000	\$ 100,000
Debra L. Hemsey	DLJ	October, 2000	\$ 100,000
Dominic A. Capolongo	DLJ	October, 2000	\$ 75,000
Christopher Webb	DLJ	October, 2000	\$ 55,000
Gavin Ŵolfe	DLJ	October, 2000	\$ 50,000
Eric Manley	DLJ	October, 2000	\$ 50,000
Jamie Pate	DLJ	October, 2000	\$ 50,000
Philip Turbin	DLJ	October, 2000	\$ 35,000
Patricia P. Lynett	DLJ	October, 2000	\$ 35,000

As stated in our cover letter, please be advised that the individuals listed above have been notified of their rights pursuant to Section 502 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338 (1999)) and given CSFB their consent to provide nonpublic personal information in connection with this response. We note that this nonpublic personal information is further subject to the legal prohibition on reuse of non-public personal information under section 502(c) of the Gramm-Leach-Bliley Act.



"MCBRIDE, JAMES R" <JAMES_R_MCBRIDE@fleet.com> on 12/22/2000 03:11:44 PM

"GEORGE SERICE (E-mail)" <GEORGE.SERICE@chase.com> To: cc: Subject:

I hope this description is some what close to reality!!

James R. McBride
Managing Director
Fleet Corporate and Investment Banking
713-315-4210 (Direct)
713-315-4222 (Fax)
James_R_McBrideaFleet.com



- Approval ForumMemo.doc

Permanent Subcommittee on Investigations EXHIBIT #194h

SENATE MAH - 02302

Loan Forum

From: James R. McBride and Jill A. Calabrese

Date: December 20, 2000

Project Mahonia - \$330 Million Forward Sale Natural Gas Contract Re:

Enron Financing Objectives

On December 18, 2000, Debt Capital Markets received approval to purchase up to a \$167 million interest in a natural gas contract. That contract requires Enron North American to make future deliveries of natural gas. Today, Financial Institutions is seeking to establish or increase certain reddi limits for Travelers, St. Paul. Lumbermen's, Hartford, and Safeco to support this transaction. These clients will issue surery bonds to guarantee Enron's performance under the natural gas contract. This memo is written in support of Financial Institutions' request and is intended to provide a brief overview of Enron's financing objectives. While we expect Enron to make the required deliveries, it is important to note that the Enron performance risk is specifically assumed by the oversteed deliveries, it is important to note that the Enron performance risk is specifically assumed by the surety bond providers. If Ennon North America fails to deliver gas and Enron Corp fails to pay, the insurance companies are obligated to pay liquidated damages.

Transaction Overview from Euron's perspective:

Transaction Overview from Earon's perspective:

Erron North America ("ENA") plans to enter into a \$330 million forward sale gas contract with an offbalance sheet, special purpose vehicle created by Chase, Mahonia Natural Gas Limited. Under the terms of
the agreement Erron North America will receive an up front payment of \$330 million, which will be
funded by Fleet and Chase. Enron will be obligated to deliver to Mahonia specified volumes of natural gas
(84 Bcf) at specified times and at specified locations. (Please note Fleet will not be taking any mark to
market gas risk or physical delivery risk. See the Debt Capital Markets Approval Memo for a more
complete description of the Mahonia transaction). Separate and apart from the Mahonia transaction, Enron
will enter into a commodity price swan that will fix Forton'ts future cost of merchasing and delivering the will enter into a commodity price swap that will fix Enron's future cost of purchasing and delivering the scheduled gas volumes.

Enron's financing objective in completing this transaction is as follows:

Enron is attempting to match its "book income" and "cash flow." As a derivatives and commodity trader.

Enron uses "mark to market" accounting practices to account for its price risk management contracts.

Consequently, when Enron closes a derivative transaction, whether physical or financial, it is required by accounting practice to mark to market (on a daily basis) the expected income or loss it will incur over the action and the practice to mark to market (on a cast) one superior income or toos it will include our use life of the transaction. However, from a cash flow standpoint, it will actually receive or make payments of cash over the life of the contract. On September 30, 2000, Enron had a positive net asset position of over \$1.2 billion in its price risk management books.

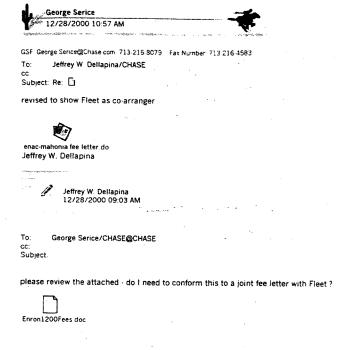
Enron has historically managed to monetize its "in the money" position by completing either physical or financial forward sales. The Mahonia transaction will allow Enron to receive cash upfront. Subsequently, Enron will use the future cash flows it expects to receive under its existing price risk management contracts to pay for the gas it will be required to deliver under the Mahonia contract. The scheduled deliveries under the Mahonia contract are designed to approximately match Enron's expected receipts of cash (or volumes) under its existing contracts.

The accounting impact on Enron's financial statement is as follows:

Enron is not taking this transaction into earnings. Enron will account for their \$330 million liability under the Mahonia Forward Sale Contract as an increase to, its "Liability from Price Risk Management Activities". As September 30, 2000 Enron had total assets from price risk management activities of \$14.7 billion and total liabilities from price risk management activities of \$13.5 billion, for a net asset position of \$1.2 billion

> SENATE MAH - 023

OIA Confidential Treatment Requested by JPMC



FOIA Confidential Treatment Requested by JPMC Permanent Subcommittee on Investigations
EXHIBIT #194i

SENATE MAH - 02304



The Chase Manhattan Bar Commodity Derivatives 270 Park Avenue 6th Floo New York N.Y. 19917

December 29, 2000

Mr. Joseph M. Deffner Chief Financial Officer Enron North America Corp. 1400 Smith Street Houston, TX 77002-7361

FEE LETTER

Subj: Fees associated with the prepaid forward sale transaction between Enron North America Corporation ("ENAC") and Mahonia Natural Gas Limited ("Mahonia")

ENAC and its ultimate parent, Enron Corp., (collectively "Enron") have requested The Chase Manhattan Bank ("Chase") and Fleet National Bank ("Fleet") co-arrange a prepaid, natural gas, forward sale in the amount of approximately \$330,000,000.00 (the "Transaction") between ENAC and Mahonia. In connection with the Transaction, Enron has agreed to pay an arrangement fee of \$2,145,000.00 at closing, which fee will be equally split among Chase and Fleet (the "Co-Arrangers"). In this connection, Enron acknowledges that Chase shall be forwarding the prepayment amount for and on behalf of Mahonia and agrees that Chase may deduct the fees for the benefit of the Co-Arrangers from the prepayment amount of approximately \$330,000,000.00 resulting in a net payment to Enron of approximately \$327,855,000.00.

Please acknowledge your agreement with the above by signing below.

Regards.

Jeffrey W. Dellapig¹, Managing Director The Chase Manhattan Bank

> SENATE MAH - 02305

FOIA Confidential Treatment Requested by JPMC

ENAC Mahonia Fee Letter December 29, 2000 Page 2 of 3

[Signor] [Title] Fleet National Bank

Acknowledged and Agreed by:

Mr. Joseph M. Deffner Chief Financial Officer Enron North America Corp.

Enron North America Corp.

SENATE MAH - 02306

ENAC Mahonia Fee Letter December 29, 2000 Page 3 of 3

The information below needs to be updated

Acct # NationsBank - Dallas, A.B.A. No. 111000012

\$500,000,000.00 (debited to Mahonia)

Less: Fees to Chase:

\$ 1,250,000.00

Net payment to Enron

\$498,750,000.00 (credited to ENGMC account above)

SENATE MAH - 02307

From: Sent: To: Cc: Subject:

Allen, Melissa Tuesday, July 24, 2001 2:14 PM Dennard, Virginia Faldyn, Rodney Presentation Stuff

Here are my pictures for the presentation. I've also added one with color....I'm not sure which is better for the offsite, though I always prefer color....

I've heard that Kent isn't going to be able to be there, but he may be adding my stuff into his own (so this may be duplication).



From: 'Sent: To: Subject:

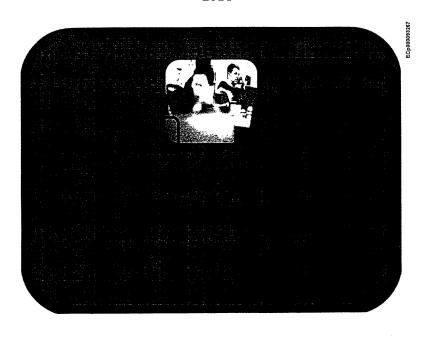
Allen, Melissa 24 July 2001 13:42 Castleman, Kent SFAS 49 Stuff

Here's a little pic of Camelot and the key issues we addressed. I'm not sure if it matches with your presentation from a content perspective, so let me know if you're concerned. I've left it nice and boring from a style perspective so that you can just copy it into whatever you've put together and the format from your presentation should fit without issues.



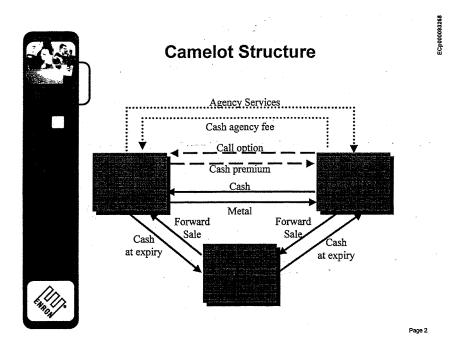
Permanent Subcommittee on Investigations EXHIBIT #194j

ECp000093266



PROJECT CAMELOT

Accounting Overview





Camelot Accounting Considerations

Two main considerations:

- o Treatment of the transaction as a sale versus a product financing
- o Timing of revenue recognition in consideration of the agency arrangement

Page 3



Camelot Key Sale Considerations

- o Is the forward purchase from the LME a 'requirement to repurchase'?
- Does Enron's option to repurchase from Barclays create an economic compulsion to repurchase?
- o Can Enron's option be for the specific metal sold?
- o Can Enron act as agent in respect of the metal without affecting sale treatment?

Page



Camelot Key Agency Considerations

- Does the agency arrangement satisfy all of the requirements for separate recognition?
- o Can Enron be responsible for acquiring and maintaining proper insurance?

Page 5

t Gel Confidential

EGM Inventory Financing August 2001

We The state of th

EC2 000007647

Permanent Subcommittee on Investigations
EXHIBIT #194k

Effect on EGM Financials

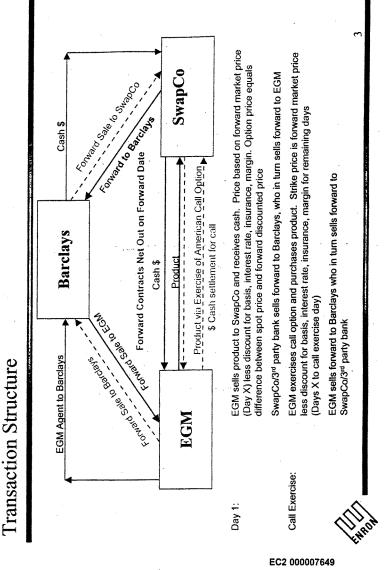
Assumptions		Impact on EGM Financials, \$ 000's	
Facility Size, \$	200,000,000	Gross Margin	(8,150) *
6 Month Libor Average Spread (Barckys w.avg)	3.72%	EBIT (includes upfront fee + implementation costs)	* (10,650)
Upfront Fee All In Costs	0.50%	Capital Charge (savings on imputed debt)	7,500 *
Implementation Costs		Net Income Affer Tax at 35%	(2,048) *
Upfront Legal Fees, \$ Adminstration (9 FTE's), \$	500,000	Equity Employed	(100,000)
Total, \$	1,500,000	Return on Equity	+ 6.3% **
		Return on Invested Capital	+3.5% **
		Imputed Funds Flow (i.e. 3X due to lower int. exp.)	26,217,800

* Have agreed with Wes Colwell that EGM will be relieved of the Gross Margin/EBIT effects of the transaction such that any impact is below the EBIT line

** On the facility of \$200,000,000 a capital charge is assessed on \$100,000,000 (50% debt) @ 7.5 % amounting to \$7,500,000

EC2 000007648

List Conductoritial



Transaction Structure

- EGM sells inventory to SwapCo (a third party entity controlled by but NOT affiliated to Barclays) which takes full legal title to Enron inventory and receives cash
- Enron purchases a series of American call options from SwapCo on the various tranches of product
- To mitigate commodity price risk, all physical product sold to SwapCo will be hedged through Barclays back to Enron
- As Enron exercises call options, new forwards will be written to offset the original forward contracts
 - The facility will mimic a revolving credit facility as Enron sells and repurchases product on a continuous basis over the term of the contract
 Enron will act as agent to Barclays to manage all operations & logistics
- associated with inventory
 Financing is secured by title to inventory. Bank essentially takes Enron credit risk on commodity price decline



EC2 000007650

SULLIVAN & CROMWELL

TELEPHONE: 1-202-956-7500 FACSIMILE: 1-202-293-6380

1701 Pennsylvania Avenue, N.W. Washington, D.C. 20006-5805

NEW YORK + LOS ANGELES + PALO ALTO
FRANKFURT + LONDON + PARIS
BEIJING + HONG KONG + TOKYO
MELBOURNE + SYDNEY

Confidential Treatment Requested

May 22, 2002

By Hand

Robert L. Roach, Esq.
Counsel and Chief Investigator,
U.S. Senate Permanent Subcommittee on Investigations,
199 Russell Senate Office Building,
Washington, D.C. 20510.

Re: Barclays Capital (Subpoena E02498)

Dear Bob:

On behalf of Barclays Capital, I attach a list of transactions involving Barclays Capital and Enron Corp. and its affiliates ("Enron") in response to the subpoena of the Subcommittee on Investigations served on Barclays Capital on April 11, 2002 (the "Subpoena"). Pursuant to our discussions, this will confirm that Barclays Capital will submit additional material in response to the Subpoena on a rolling basis only if the Subcommittee determines that it requires any of the underlying documents upon review of the list of transactions.

Also pursuant to our discussions, I enclose on behalf of Barclays Capital certain additional documents in response to the Subpoena. These documents bear control numbers BAR 003631-005317 and include the following:

1. documents and account statements in response to subpoena request number 1 relating to the accounts of Big River Funding LLC

Permanent Subcommittee on Investigations
EXHIBIT #1941

(account numbers 050-79387 and 050-79388) and Little River Funding LLC (account numbers 050-79389 and 050-79390) (see BAR 003631-003956). Other than the Maples & Calder accounts discussed below, Big River Funding LLC and Little River Funding LLC are the only entities listed in Subpoena request number 1 for which Barclays Capital has been able to identify bank accounts with Barclays Capital;

- 2. wire transfer summaries taken from searches of Barclays Capital's systems for those entities listed in (a) through (bb) of request number 1 (see BAR 5019-5031, 5205-5317). These summaries list transfers involving entities that had no accounts with Barclays Capital (e.g., Chewco Investments LP, SONR #1 LLC, Michael Hinds, Enron Capital Management LP, JEDI LP, and JEDI SPV 1) because the searches captured any transfers that passed through Barclays Capital's systems without regard to whether the named entity maintained an account with Barclays Capital;
- documents relating to the September 2001 swap transaction involving Barclays, Enron and Credit Suisse First Boston (see BAR 005032-005204); and
- certain additional documents relating to the "Chewco" transaction (see BAR 003957-005018) to supplement Barclays Capital's initial production of April 22, 2002.

I would like to discuss with you the Subpoena's request for documents relating to financial accounts at Barclays Capital in the name of Maples & Calder (request number 1(cc)), as it appears that this request would capture numerous documents entirely unrelated to Enron. Additionally, once you have had a chance to review the enclosed materials, I would like to confirm with you that Barclays Capital has produced all documents of interest to the Subcommittee at this time. Please call me at your earliest convenience.

-3-

The attached transaction list and the documents provided with this letter in response to the Subpoena are confidential and/or commercially sensitive, and contain proprietary business information, confidential financial information and trade secrets. We therefore request that this letter, the attached transaction list and the enclosed documents and the information contained therein be maintained in the strictest confidence, and accorded the full protection provided by the Senate's Standing Rules, the Committee's rules and all other applicable rules and regulations.

Very truly yours

Daryl A. Libow

(Enclosures)

cc: Guy Dempsey, Esq. (Barclays Capital)

Enron Transaction List1

A. Barclays as Lead Bank, Agent or Sole Lender

- Uncommitted Credit Facility Enron Corp. as borrower. In effect since 1997, evidenced by Promissory Note. \$15m outstanding as at December 2, 2001. Barclays as sole lender.
- 2. Besson Trust \$80m. Entered into September 2001. Senior tranche of \$72m is guaranteed by Enron Corp. via a total return swap. \$8m of subordinated obligations. Funded the Trust's acquisition, from an Enron affiliate, of an economic interest in a 38% limited partnership interest in EOTT, a crude oil gathering and trading MLP (publicly traded on NYSE). EOTT's general partner is Enron. Original maturity September 26, 2003. Barclays as Agent; entire senior tranche held by Barclays; subordinated obligations held by CSFB, but risk transferred to Barclays via total return swap.
- Enron Europe Limited; Bond, Guarantee and Indemnity Facility Uncommitted limit of \$7m. To support obligations owing to UK customs, others. Barclays as sole lender.
- 4. Contractual Asset Securitization Trust V ("Cash V") Loan to the Trust monetized electricity capacity payments from VEPCO, a regulated utility. Barclays as Agent for syndicate of Lenders. Closed June 30, 1997 with a total financing of \$130.9m. Original maturity February 2007. \$68.3m outstanding, Barclays' share \$27m. Structure included an interest rate swap between Barclays and the Trust.
- 5. Contractual Asset Securitization Trust VI ("Cash VI") \$50m. Entered into June 1998. Barclays as sole lender. Loan to the Trust monetized an electricity swap between a subsidiary of British Energy and an Enron subsidiary. Original maturity July 30, 2006. Structure also involved the Trust entering into an FX swap, interest rate swap, in-themoney electricity swap and PPI swap with an Enron subsidiary (ECTRIC), guaranteed by Enron Corp.
- Chewco Bridge Financing Barclays financed 50% of \$383m credit facility to Chewco Investments L.P. to effect the buy-out of Calpers one-half interest in JEDI; guaranteed by Enron Corp. Closed November 1997 and repaid December 1997. Barclays and Chase as co-arrangers.
- Chewco Subdebt \$240m, 364-day subordinated loan to Chewco, guaranteed by Enron.
 Entered into December 1997. Repaid in November 1998 via the proceeds of the facilities described in #8 below. Barclays as Agent for syndicate of Lenders.
- A. Term Loan Facility to JEDI \$205m five-year amortizing loan facility; Barclays' share \$75m. Barclays as Administrative Agent and co-arranger with CSFB. Closed

¹ Barclays has attempted to identify and include in this list all relevant financings and other transactions since 1997. While this list includes structured transactions and other transactions Barclays believes may be of interest to the Subcommittee (including swaps and other transactions that had the effect of providing financing to Enron), it does not include routine swaps, options and FX and commodity trades, which number in the thousands.

November 1998. Repaid March 2001.

- B. Revolving Credit to JEDI \$120m margin loan secured by equity investments in 8 publicly traded companies. Barclays as Agent for syndicate of lenders. Closed November 1998 and repaid over time with final repayment in March 2001.
- C. <u>JEDI SPV1</u>, L.L.C. \$225m Private Placement JEDI formed JEDI SPV 1, L.L.C. in October 1998, whose sole assets were (i) Enron shares and (ii) a put on the shares to Enron at \$54 1/16. In March 1999, JEDI SPV 1, L.L.C. issued privately placed notes against the value of the assets. Barclays as sole Placement Agent. Repaid December 1999
- Big River/Little River Loans \$11.4m credit facilities to Big River Funding L.L.C.
 (\$11,033,847) and Little River Funding L.L.C. (\$331,015) in connection with the
 refinancing of Calpers interest in JEDI. Barclays as sole lender. Repaid December 1999.
 Initial cash collateral of \$6,580,000 for the two facilities, increased over time through
 distributions from Chewco.
- 10. Enserco \$125m Senior Credit Facility. Amended and restated December 31, 1998. Original financing December 12, 1996. Barclays as arranger and agent of syndicated loan. Enserco was a 50%/50% joint venture established between a subsidiary of Enron and SCF Partners an unrelated third party. Repaid April 2000.
- 11. Sutton Bridge Financing Limited BZW Securities Inc. (predecessor to Barclays Capital Inc.) as joint bookrunner with Merrill Lynch for £286m offering of secured bonds due 2022 issued by Sutton Bridge Financing Limited, guaranteed by Sutton Bridge Power (an Enron subsidiary). Proceeds used to finance construction of gas turbine power station in the U.K. US\$ and Sterling Bond issued May 30, 1997.
- Sutton Bridge Power Ltd. £16m cost overrun facility. Barclays as sole lender.
 Committed May 30, 1997. Facility guaranteed by Enron Corp.; available for drawing until December 1999; latest date for repayment of any drawings May 30, 2002; expired undrawn.
- 13. Teesside Power Ltd. ("TPL") December 19, 1996 refinancing. Barclays co-lead arranger and agent of a £755.5m refinancing of this UK power project. Syndicated in June 1997. Barclays' share is £15.5m with a series of interest rate swaps running off by April 1, 2008. Loan matures April 1, 2008, although a refinancing is expected in the next few weeks that would relax the amortization schedule but not the final maturity date. Enron Corp. indirectly own 42.5% of TPL. Current total loan outstandings are £656.7m
- 14. Enron Funding Corp. ("EFC") Barclays as Agent for \$355m syndicated revolving credit facility, providing liquidity to backstop commercial paper issuance by EFC. The facility was credit enhanced by a \$355m insurance policy provided by Winterthur International U.K. Ltd. Transaction closed December 31, 1999. Full reimbursement of outstanding amount (approximately \$58m) received from Winterthur on December 26, 2001.

- 15. Meter Acquisition LP Credit Agreement dated September 1999. Barclays, as Agent, for this syndicated \$45m bank financing. Barclays' share \$15m. The financing served to monetize the fixed portion of a service contract between Houston Pipeline (100% owned sub of Enron) and Hanover Measurement Services a joint venture between Enron and Hanover Compressor. Repaid May 24, 2001.
- 16. Blackbird Trust Loan to an Enron SPV ("Blackbird 1 Interest Owner Trust"), guaranteed by Enron Corp. \$73.5m funding used to monetize a contract between Enron Energy Services Operations, Inc. and Computer Sciences Corporation, an unrelated third party. Barclays as sole lender. Originated December 1999. Prepaid April 2000.
- 17. Enron Europe Power 3 Ltd ("EEP3") Barclays served as Agent for a £160m syndicated loan guaranteed by Enron Corp, executed Jan. 15, 1999. This loan refinanced an existing maturing loan. The intention was that £110m should be a bridge to a longer term unguaranteed bond financing. £110m was repaid with the proceeds of a private placement of notes in July 1999 (see #18 below). The remaining £50m was scheduled for payment in 2002 and remains outstanding.
- 18. Enron Europe Power 3 Ltd. Private Placement of Notes (3 tranches: £35m 9.84% Secured Notes due 2008, \$101.8m 9.86% Secured Notes due 2008 and \$19.3m Floating Rate Notes due 2008) completed July 19, 1999. The Notes were to be repaid out of EEP3's share of the dividend stream from its ownership interest in Teesside Power Ltd. Barclays acted as placement agent.
- 19. Spokane Energy \$155m Senior Notes due 2015 Barclays led private placement closed December 31, 1998. Monetization of an 18-year power contract between Portland General Electric ("PGE"), a UK regulated utility subsidiary of Enron, and Washington Water Power. The structure provided for the assignment of the power contract to Spokane Energy, a newly formed entity established to issue the notes. To remove commodity price risk from the transaction, Spokane entered into a second power purchase agreement with Enron Power Marketing ("EPM"), which mirrored the obligations undertaken by Spokane. Note holders were insulated from risks other than those associated with EPM performance risk and PGE payment risk.
- 20. Wessex Water Acquisition Finance Executed August 18, 1998. Bridge financing in connection with Enron's acquisition of Wessex Water, a regulated water company headquartered in Bristol. Barclays and Nat West joint lead arrangers for two facilities: a) US\$1,100 million revolver guaranteed by Enron Corp, borrowers Enron Corp and Enron Water (Holding) LLC, final maturity July 23, 1999; and b) £736 million, no guarantee, borrower Enron Water (Europe) PLC (the direct acquirer of Wessex Water), final maturity latest July 23, 2003. Syndication done in September and October 1998. Both facilities cancelled and/or repaid in full in first half of 1999.
- 21. Wessex Water Bonds March 1999. Barclays and HSBC were joint bookrunners on an offering of £300m, 10 year bonds issued by Wessex Water.
- 22. Wessex Water Loan October 2000. Barclays as sole lender for £50m 364-day revolving credit facility. Facility never drawn.

- 23. Sox Monetization by Enron North America ("ENA") of its inventory of US sulfur dioxide pollution emission permits ("SOX") issued by the United States Environmental Protection Agency ("EPA"). The initial transaction took place in September 2001 (\$138m) and was renewed in October 2001 (\$170m). Under each transaction, Colonnade Limited (a Guernsey SPV) received from ENA, in exchange for the purchase price, title to all of the SOX and was registered as owner in the books of EPA. To enable Colonnade to complete its purchase, Barclays made limited recourse loans to Colonnade (in each case equal to the purchase price) secured against all of Colonnade's assets, including the SOX. Herzelerde LLC (an affiliate of ENA) purchased an American style call option in respect of the SOX from Colonnade. In addition, in respect of the second transaction, Colonnade paid a premium to purchase put options in respect of the SOX from Grampion (an affiliate of ENA). In each case, the strike prices of the options were to be at prevailing market rates at the time of exercise. The risk of any adverse price movements as well as the benefit of any up-turn was borne by ENA through a series of swap agreements. Enron Corp. guaranteed the obligations of the other companies in the Enron group and provided cash collateral (\$59.5 million) in relation to Barclays' exposures to the Enron group (including in respect of the SOX transactions).
- 24. <u>JGB/LAB Trust</u> Barclays, as Agent, for \$92,517,750, two-year credit facility to monetize Enron's shareholding in Catalytica and Avici Corporation through loans to two trusts (JGB Trust with respect to Catalytica shares and LAB Trust with respect to Avici shares). Credit Agreement entered into December 7, 2000. The financing involved a notes and certificates structure, incorporating a total return swap between Enron N. A. and the Trusts. The \$52.2m LAB Trust tranche prepaid in full March 2001. Remaining loans repaid in full October 2001.
- 25. London Metals Exchange (LME) Warrant Facility and Physical Metals Facility Two linked multiple monetization facilities (\$750m LME warrants; \$1bn physical metals) for utilization by either Enron Metals Limited or Enron Metal and Commodities Limited. The warrants facility was put in place in September, 2000 for a term of 12 months and was renewed for a further 3 months in 2001. The physical metals facility was put in place in November 2000 for 12 months with an option for Enron to extend for a further 6 months. The warrants facility could be increased with an offsetting decrease in the physical facility but not vice versa. When the facilities were utilized, Barclays received, in exchange for the purchase price, title to either the warrants or to the physical metals and granted options to Enron to repurchase equivalent commodities. Barclays hedged the price risk on the London Metals Exchange. The utilization at December 2, 2001 was \$850m on the physical metals facility and \$896m on the warrants facility.
- 26. Cocoa Facilities Single monetization facility (£40m) for utilization by Enron Metals Limited. The transaction took place in December 2000 and had a term of 2 months. Under the facility, Barclays received, in exchange for the purchase price, title to cocoa in LIFFE designated warehouses from Enron. Barclays granted Enron a call option exercisable at the end of the term.
- Enron Metals Ltd. Loan Barclays had \$149.5m in unsecured loans outstanding to MG PLC at the time MG PLC was acquired by Enron in October 2000. MG PLC was renamed Enron Metals Ltd. Loans were repaid December 2000.

28. Yosemite Bridge (Crude Oil) Swap - \$110m (£66m) crude oil swap entered in December 1999 for 90 days, subsequently extended an additional 31 days. Barclays paid cash to Enron N.A. upfront in settlement of the fixed leg and received the value of the floating leg at maturity. The oil market risk was sold by Barclays to Toronto Dominion in a swap with fixed and floating cashflows both at maturity at a price that was related to the Enron price but reflected the impact of the different fixed cashflow date. This transaction along with similar transactions by Enron with Royal Bank of Canada and Salomon Smith Barney comprised the bridge financing associated with the Sterling bond issue described in #43 below.

B. Barclays as participant (or swap counterparty) in facilities led or arranged by other banks

- 5-year Revolving Credit Facility \$1.25b syndicated facility. Original maturity May 18, 2005. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.
- 30. 364-day Revolving Credit Facility \$1.75b syndicated credit facility. Original maturity
 May 13, 2002. Administrative agents are JPM/Chase and Citibank. Barclays is a
 participant.
- 5-year Letter of Credit Facility \$500m syndicated facility. Original maturity May 13,
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- 32. Ponderosa Pine Energy L.L.C. \$215.2m syndicated loan entered into in June 2000. In effect, guaranteed by Enron Corp. through a total return swap structure. Vehicle holds Enron's equity interest in the Tenaska power station located in Texas. Original maturity March 31, 2002. Secured by the equity in Tenaska. KBC Bank as Agent. Barclays is a participant with a \$20m share.
- 33. <u>Brazil Power Development Trust</u> \$460.75m syndicated loan, guaranteed by Enron Corp., entered into December 2000 to fund construction of Brazilian power project. Original maturity August 31, 2002. Secured by the project's assets, which include several natural gas turbines being constructed. West LB as Lead Arranger and Administrative Agent. Barclays as participant with a \$19 m share of commitments (\$14m outstanding).
- 34. <u>J T Holdings Lease</u> \$110m syndicated facility entered into 1992. Original maturity December 7, 2005. Loan to an SPV that owns and leases to Enron a methanol plant. Secured by plant and certain Enron Corp. obligations. Citibank as Agent. Barclays as participant with a \$12m share.
- 35. Rawhide Investors L.L.C. \$690m syndicated loan. Loan is to Rawhide, an investor in an Enron subsidiary that owns project assets in the US, Argentina and Brazil. Original maturity March 28, 2002. Citicorp as Agent. Barclays as participant with a \$35m share.
- 36. <u>Brazos VPP Trust</u> \$250m syndicated finance facility. Facility enabled an SPV (Brazos VPP Limited Partnership) to purchase oil and gas volumetric production payments (VPP's) from third parties. Original maturity December 31, 2005. Secured by VPP's.

Bank of America as Agent. Barclays as participant with \$12m share of commitments.

- 37. JEDI SPV1, L.L.C. \$513m Term Loan 364-day syndicated credit facility supported by approximately 12m shares of Enron stock valued at the face amount of the loan via a share-settled swap between the SPV and Enron Corp. Chase as Agent and Arranger. Entered into December 1999. Maturity extended to June, 2001. Barclays served as one of four underwriters (Chase, Lehman, CSFB) initially funding \$128.375 m each. After bank syndication Barclays' share as participant was reduced to \$38.875 m.
- 38. JEDI II Bridge Loan \$500m. Chase as Agent for a six-month loan. JEDI II is a joint venture which included Enron subsidiaries as the 1% General Partner and a 49% Limited Partner, and CALPERS as a 50% limited Partner. Entered into December 1997. Barclays and Chase committed \$100m each and four other banks committed \$75m each. Repaid through financing referenced in #39 below.
- 39. JEDI II \$500m syndicated revolving loan entered into May 1998. (Commitment reduced to \$250m December 22, 2000). Original maturity June 2001. Chase as Agent. Barclays as a participant with a \$28.5m share. Outstanding loans repaid in September 2001 and commitments expired at the end of October 2001 without any loans outstanding.
- Enron Corp. Zero Coupon Convertible Senior Notes due 2021 Private Placement of notes with Salomon Smith Barney as Lead Placement Agent. January 31, 2001 placement raised \$1.25b (face amount of notes \$1.9b).
- 41. Delta Energy Corporation Commodity Swaps Entered into December 31, 1998. Delta, an SPV, borrowed \$500m from a Citibank conduit and used the proceeds to purchase and prepay for \$300m worth of natural gas and \$200m of crude oil at an agreed price. Barclays entered into offsetting energy swaps with Delta and an Enron subsidiary (Enron Capital and Trade Resources). The structure unwound November 17, 1999.
- 42. Commodity Swap Executed September 27, 2001. Barclays served as a swap counterparty to both Enron North America and CSFB for the energy price component of a \$300m commodity linked financing (crude oil prepay) provided to Enron by CSFB.
- 43. Yosemite Securities Company Ltd. £200m 8.75% Series 2000-A Linked Enron Obligations ("LEO's") due 2027. Issue date February 15, 2000. Lead Manager Salomon Smith Barney International. Barclays as co-manager, with Royal Bank of Scotland.

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November 21, 2002

By Hand

Robert L. Roach, Esq.,
Counsel and Chief Investigator,
U.S. Senate Permanent Subcommittee on Investigations,
199 Russell Senate Office Building,
Washington, D.C. 20510.

Re: Barclays Capital (Subpoena E02498)

Dear Bob:

On behalf of Barclays Capital, I enclose a chart listing the fees, commissions, interest or profit earned or losses incurred with respect to each transaction involving Barclays Capital and Enron Corp. or its affiliates and a revised list of those transactions pursuant to our recent discussions and in further response to the subpoena of the Subcommittee on Investigations dated April 11, 2002. As you know, on May 22, 2002, Barclays Capital produced to the Subcommittee an initial list of its transactions involving Enron-related entities.

The chart lists interest figures on a "net" basis, which is how interest income is listed in the records of Barclays Capital. Net interest is calculated on the margin above the London Interbank Offered Rate (LIBOR) (or similar benchmark) or the cost of funds and is, thus, "net" of the cost of capital. (Because certain loans became non-performing in 2001, certain transactions show a negative net interest amount for this

year.) The enclosed transaction list and fee chart includes six transactions (transactions 29-33 and 49) inadvertently omitted from Barclays' May 22 transaction list. (These six transactions are comprised of one securitization transaction dating back to 1994 (transaction 29), three project finance transactions, two of which date back to 1994 or earlier (transactions 30, 32 and 33) and two credit facilities relating to JEDI that were repaid in 1997 or 1998 (transactions 31 and 49).) The chart lists interest, fees and other income earned based on the best information Barclays has been able to identify to date in its systems and records. The compilation of this information required Barclays to retrieve and assemble data from multiple systems and records in both London and New York. If and as additional information becomes available, Barclays will supplement the data provided to the Subcommittee on the enclosed chart.

The enclosed chart, transaction list and this letter provided in response to the Subpoena are confidential and/or commercially sensitive, and contain proprietary business information, confidential financial information and trade secrets. We therefore request that this letter, the enclosed chart, transaction list and the information contained therein be maintained in the strictest confidence, and accorded the full protection provided by the Senate's Standing Rules, the Committee's rules and all other applicable rules and regulations.

(Enclosures)

cc: Guy Dempsey, Esq. (Barclays Capital)

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"Negative net interest for 2001 in Key Numbers 1, 4 34,35,36 and 37 is approximate and reflects the failure of obligor to pay interest due after bankruptcy filing.

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Besson Trust Enron Europe Ltd; Bond, Guarantee and Indemnity Facility CASH VI Chewco Bridge Financing Chewco Subdebt Term Loan Facility to JEDI 8a 8b 8c 9 nerm Loan Facility to JEDI Revolving Credit to JEDI JEDI SPV1, L.L.C. \$225m Private Placement Big River/Little River Loans Enserco Enserco Sutton Bridge Financing Ltd. Sutton Bridge Power Ltd. Teesside Power Ltd. Enron Funding Corp. Meter Acquisition LP Blackbird Trust Enron Europe Power 3 Ltd 11 12 13 14 15 16 17 18 19 Enron Europe Power 3 Ltd. PP Spokane Energy \$155m Senior Notes due 2015 Wessex Water Acquisition Finance Wessex Water Bonds Wessex Water Loan Sox JGB/LAB Trust London Metals Exchange Coca Facilities Enron Metals Ltd. Loan Yosemite Bridge (Crude Oil) Swap Project Cactus Clearlake JILP Lost Creek/Wind River Richmond Power 5-year Revolving Credit Facility 364-day Revolving Credit Facility 5-year Letter of Credit Facility 5-year Letter of Credit Facility Ponderosa Pine Energy LLC Brazil Power Development Trust JT Holdings Lease Rawhide Investors LLC Brazos VPP Trust JEDI II Bridge Loan JEDI II Bridge Loan JILP JEDI II Bridge Loan JEDI II JEDI II Enron Corp Zero Coupon Convert Senior Notes due 2021 Delta Energy Corporation Commodity Swaps Commidity Swap Yosemite Securities Company Ltd. JEDI I

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Enron Transaction List1

A. Barclays as Lead Bank, Agent or Sole Lender

- <u>Uncommitted Credit Facility</u> Enron Corp. as borrower. In effect since 1997, evidenced by Promissory Note. \$15m outstanding as at December 2, 2001. Barclays as sole lender.
- 2. Besson Trust \$80m. Entered into September 2001. Senior tranche of \$72m is guaranteed by Enron Corp. via a total return swap. \$8m of subordinated obligations. Funded the Trust's acquisition, from an Enron affiliate, of an economic interest in a 38% limited partnership interest in EOTT, a crude oil gathering and trading MLP (publicly traded on NYSE). EOTT's general partner is Enron. Original maturity September 26, 2003. Barclays as Agent; entire senior tranche held by Barclays; subordinated obligations held by CSFB, but risk transferred to Barclays via total return swap.
- Enron Europe Limited; Bond, Guarantee and Indemnity Facility Uncommitted limit of \$7m. To support obligations owing to UK customs, others. Barclays as sole lender.
- 4. Contractual Asset Securitization Trust V ("Cash V") Loan to the Trust monetized electricity capacity payments from VEPCO, a regulated utility. Barclays as Agent for syndicate of Lenders. Closed June 30, 1997 with a total financing of \$130.9m. Original maturity February 2007. \$68.3m outstanding, Barclays' share \$27m. Structure included an interest rate swap between Barclays and the Trust.
- 5. Contractual Asset Securitization Trust VI ("Cash VI") \$50m. Entered into June 1998. Barclays as sole lender. Loan to the Trust monetized an electricity swap between a subsidiary of British Energy and an Enron subsidiary. Original maturity July 30, 2006. Structure also involved the Trust entering into an FX swap, interest rate swap, in-themoney electricity swap and PPI swap with an Enron subsidiary (ECTRIC), guaranteed by Enron Corp.
- Chewco Bridge Financing Barclays financed 50% of \$383m credit facility to Chewco Investments L.P. to effect the buy-out of Calpers one-half interest in JEDI; guaranteed by Enron Corp. Closed November 1997 and repaid December 1997. Barclays and Chase as co-arrangers.
- Chewco Subdebt \$240m, 364-day subordinated loan to Chewco, guaranteed by Enron.
 Entered into December 1997. Repaid in November 1998 via the proceeds of the facilities described in #8 below. Barclays as Agent for syndicate of Lenders.

¹ Barclays has attempted to identify and include in this list all relevant financings and other transactions since 1997. While this list includes structured transactions and other transactions Barclays believes may be of interest to the Subcommittee (including swaps and other transactions that had the effect of providing financing to Enron), it does not include routine swaps, options and FX and commodity trades, which number in the thousands.

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- A. <u>Term Loan Facility to JEDI</u> \$205m five-year amortizing loan facility; Barclays' share \$75m. Barclays as Administrative Agent and co-arranger with CSFB. Closed November 1998. Repaid March 2001.
 - B. Revolving Credit to JEDI \$120m margin loan secured by equity investments in 8 publicly traded companies. Barclays as Agent for syndicate of lenders. Closed November 1998 and repaid over time with final repayment in March 2001.
 - C. JEDI SPV1, L.L.C. \$225m Private Placement JEDI formed JEDI SPV 1, L.L.C. in October 1998, whose sole assets were (i) Enron shares and (ii) a put on the shares to Enron at \$54 1/16. In March 1999, JEDI SPV 1, L.L.C. issued privately placed notes against the value of the assets. Barclays as sole Placement Agent. Repaid December 1999.
- Big River/Little River Loans \$11.4m credit facilities to Big River Funding L.L.C. (\$11,033,847) and Little River Funding L.L.C. (\$331,015) in connection with the refinancing of Calpers interest in JEDI. Barclays as sole lender. Repaid December 1999. Initial cash collateral of \$6,580,000 for the two facilities, increased over time through distributions from Chewco.
- Enserco \$125m Senior Credit Facility. Amended and restated December 31, 1998.
 Original financing December 12, 1996. Barclays as arranger and agent of syndicated loan. Enserco was a 50%/50% joint venture established between a subsidiary of Enron and SCF Partners an unrelated third party. Repaid April 2000.
- 11. Sutton Bridge Financing Limited BZW Securities Inc. (predecessor to Barclays Capital Inc.) as joint bookrunner with Merrill Lynch for £286m offering of secured bonds due 2022 issued by Sutton Bridge Financing Limited, guaranteed by Sutton Bridge Power (an Enron subsidiary). Proceeds used to finance construction of gas turbine power station in the U.K. US\$ and Sterling Bond issued May 30, 1997.
- Sutton Bridge Power Ltd. £16m cost overrun facility. Barclays as sole lender. Committed May 30, 1997. Facility guaranteed by Enron Corp.; available for drawing until December 1999; latest date for repayment of any drawings May 30, 2002; expired undrawn.
- 13. Teesside Power Ltd. ("TPL") December 19, 1996 refinancing. Barclays co-lead arranger and agent of a £755.5m refinancing of this UK power project. Syndicated in June 1997. Barclays' share is £15.5m with a series of interest rate swaps running off by April 1, 2008. Loan matures April 1, 2008, although a refinancing is expected in the next few weeks that would relax the amortization schedule but not the final maturity date. Enron Corp. indirectly own 42.5% of TPL. Current total loan outstandings are £656.7m
- 14. Enron Funding Corp. ("EFC") Barclays as Agent for \$355m syndicated revolving credit facility, providing liquidity to backstop commercial paper issuance by EFC. The facility was credit enhanced by a \$355m insurance policy provided by Winterthur International U.K. Ltd. Transaction closed December 31, 1999. Full reimbursement of outstanding amount (approximately \$58m) received from Winterthur on December 26,

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2001.

- 15. Meter Acquisition LP Credit Agreement dated September 1999. Barclays, as Agent, for this syndicated \$45m bank financing. Barclays' share \$15m. The financing served to monetize the fixed portion of a service contract between Houston Pipeline (100% owned sub of Enron) and Hanover Measurement Services a joint venture between Enron and Hanover Compressor. Repaid May 24, 2001.
- 16. <u>Blackbird Trust</u> Loan to an Enron SPV ("Blackbird 1 Interest Owner Trust"), guaranteed by Enron Corp. \$73.5m funding used to monetize a contract between Enron Energy Services Operations, Inc. and Computer Sciences Corporation, an unrelated third party. Barclays as sole lender. Originated December 1999. Prepaid April 2000.
- 17. Enron Europe Power 3 Ltd ("EEP3") Barclays served as Agent for a £160m syndicated loan guaranteed by Enron Corp, executed Jan. 15, 1999. This loan refinanced an existing maturing loan. The intention was that £110m should be a bridge to a longer term unguaranteed bond financing. £110m was repaid with the proceeds of a private placement of notes in July 1999 (see #18 below). The remaining £50m was scheduled for payment in 2002 and remains outstanding.
- 18. Enron Europe Power 3 Ltd. Private Placement of Notes (3 tranches: £35m 9.84% Secured Notes due 2008, \$101.8m 9.86% Secured Notes due 2008 and \$19.3m Floating Rate Notes due 2008) completed July 19, 1999. The Notes were to be repaid out of EEP3's share of the dividend stream from its ownership interest in Teesside Power Ltd. Barclays acted as placement agent.
- 19. Spokane Energy \$155m Senior Notes due 2015 Barclays led private placement closed December 31, 1998. Monetization of an 18-year power contract between Portland General Electric ("PGE"), a UK regulated utility subsidiary of Enron, and Washington Water Power. The structure provided for the assignment of the power contract to Spokane Energy, a newly formed entity established to issue the notes. To remove commodity price risk from the transaction, Spokane entered into a second power purchase agreement with Enron Power Marketing ("EPM"), which mirrored the obligations undertaken by Spokane. Note holders were insulated from risks other than those associated with EPM performance risk and PGE payment risk.
- 20. Wessex Water Acquisition Finance Executed August 18, 1998. Bridge financing in connection with Enron's acquisition of Wessex Water, a regulated water company headquartered in Bristol. Barclays and Nat West joint lead arrangers for two facilities: a) US\$1,100 million revolver guaranteed by Enron Corp, borrowers Enron Corp and Enron Water (Holding) LLC, final maturity July 23, 1999; and b) £736 million, no guarantee, borrower Enron Water (Europe) PLC (the direct acquirer of Wessex Water), final maturity latest July 23, 2003. Syndication done in September and October 1998. Both facilities cancelled and/or repaid in full in first half of 1999.
- Wessex Water Bonds March 1999. Barclays and HSBC were joint bookrunners on an offering of £300m, 10 year bonds issued by Wessex Water.

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- Wessex Water Loan October 2000. Barclays as sole lender for £50m 364-day revolving credit facility. Facility never drawn.
- 23. Sox Monetization by Enron North America ("ENA") of its inventory of US sulfur dioxide pollution emission permits ("SOX") issued by the United States Environmental Protection Agency ("EPA"). The initial transaction took place in September 2001 (\$138m) and was renewed in October 2001 (\$170m). Under each transaction, Colonnade Limited (a Guernsey SPV) received from ENA, in exchange for the purchase price, title to all of the SOX and was registered as owner in the books of EPA. To enable Colonnade to complete its purchase, Barclays made limited recourse loans to Colonnade (in each case equal to the purchase price) secured against all of Colonnade's assets, including the SOX. Herzelerde LLC (an affiliate of ENA) purchased an American style call option in respect of the SOX from Colonnade. In addition, in respect of the second transaction, Colonnade paid a premium to purchase put options in respect of the SOX from Grampion (an affiliate of ENA). In each case, the strike prices of the options were to be at prevailing market rates at the time of exercise. The risk of any adverse price movements as well as the benefit of any up-turn was borne by ENA through a series of swap agreements. Enron Corp. guaranteed the obligations of the other companies in the Enron group and provided cash collateral (\$59.5 million) in relation to Barclays' exposures to the Enron group (including in respect of the SOX transactions).
- 24. <u>IGB/LAB Trust</u> Barclays, as Agent, for \$92,517,750, two-year credit facility to monetize Enron's shareholding in Catalytica and Avici Corporation through loans to two trusts (JGB Trust with respect to Catalytica shares and LAB Trust with respect to Avici shares). Credit Agreement entered into December 7, 2000. The financing involved a notes and certificates structure, incorporating a total return swap between Enron N. A. and the Trusts. The \$52.2m LAB Trust tranche prepaid in full March 2001. Remaining loans repaid in full October 2001.
- 25. London Metals Exchange (LME) Warrant Facility and Physical Metals Facility Two linked multiple monetization facilities (\$750m LME warrants; \$1bn physical metals) for utilization by either Enron Metals Limited or Enron Metal and Commodities Limited. The warrants facility was put in place in September, 2000 for a term of 12 months and was renewed for a further 3 months in 2001. The physical metals facility was put in place in November 2000 for 12 months with an option for Enron to extend for a further 6 months. The warrants facility could be increased with an offsetting decrease in the physical facility but not vice versa. When the facilities were utilized, Barclays received, in exchange for the purchase price, title to either the warrants or to the physical metals and granted options to Enron to repurchase equivalent commodities. Barclays hedged the price risk on the London Metals Exchange. The utilization at December 2, 2001 was \$850m on the physical metals facility and \$896m on the warrants facility.
- 26. Cocoa Facilities Single monetization facility (£40m) for utilization by Enron Metals Limited. The transaction took place in December 2000 and had a term of 2 months. Under the facility, Barclays received, in exchange for the purchase price, title to cocoa in LIFFE designated warehouses from Enron. Barclays granted Enron a call option exercisable at the end of the term.

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- Enron Metals Ltd. Loan Barclays had \$149.5m in unsecured loans outstanding to MG PLC at the time MG PLC was acquired by Enron in October 2000. MG PLC was renamed Enron Metals Ltd. Loans were repaid December 2000.
- 28. Yosemite Bridge (Crude Oil) Swap \$110m (£66m) crude oil swap entered in December 1999 for 90 days, subsequently extended an additional 31 days. Barclays paid cash to Enron N.A. upfront in settlement of the fixed leg and received the value of the floating leg at maturity. The oil market risk was sold by Barclays to Toronto Dominion in a swap with fixed and floating cashflows both at maturity at a price that was related to the Enron price but reflected the impact of the different fixed cashflow date. This transaction along with similar transactions by Enron with Royal Bank of Scotland and Salomon Smith Barney comprised the bridge financing associated with the Sterling bond issue described in #48 below.
- 29. Project Cactus In 1994, Sheffield Receivables Corp., a securitization conduit sponsored by Barclays, entered into a \$400m facility to purchase from Cactus Hydrocarbon III Production Payment Trust certificates representing interests in a limited partnership that owned oil and gas production payments. Enron's relationships with Cactus and the limited partnership included an Enron subsidiary acting as general partner of the limited partnership, various Enron subsidiaries being obligated to purchase the hydrocarbons and Enron Funding Corp. entering into a commodity swap with Cactus. Sheffield funded its certificate purchases through issuances of commercial paper. Barclays arranged and agented a syndicated liquidity facility (\$412 million) to support Sheffield's payment obligations on the commercial paper. These arrangements were extended through 1999.
- 30. <u>Clear Lake Cogeneration LP</u> Barclays, as Agent, for \$115 million term loan facility and \$10 million revolving credit facility for Clear Lake Cogen, which was wholly-owned by Enron. These were limited recourse facilities secured by liens on project contracts and assets. The facilities were established in 1994 with original maturity in 2003. The Loans were repaid in 1997.
- 31. JILP Investment LP Trust -Barclays, as Agent, for \$29.1 million seven-year syndicated credit facility and as purchaser of \$900,000 of trust certificates. Transaction entered into in September 1995 to monetize the forecast dividend stream payable to Enron by JEDI. Prepaid in 1997.
- 32. Lost Creek Gathering Company LLC Barclays, as Agent, for \$66 million senior secured credit facility established in September 1999 to fund the construction of the Wind River pipeline. During construction the credit facility was severally guaranteed by the project sponsors in proportion to their respective ownership stakes: 65% for Burlington Resources Inc. and 35% for Enron Corp. Upon completion of the project (and the resulting termination of the sponsor guarantees), Enron sold it ownership stake in the project to Northern Border Pipeline in on October 5, 2001.
- 33. <u>Richmond Power Marketing Inc.</u> Barclays, as Agent, for non-recourse project finance facility established in late 1980's relating to a power plant subsequently purchased by Enron in 1995. Enron sold the plant to VEPCO in 1997 and, at that time, the facility was repaid with proceeds from the Cash V facility described in #4 above.

B. Barclays as participant (or swap counterparty) in facilities led or arranged by other

- 34. <u>5-year Revolving Credit Facility</u> \$1.25b syndicated facility. Original maturity May 18, 2005. Administrative agents are JPM/Chase and Citibank. Barclays is a participant.
- 35. 364-day Revolving Credit Facility \$1.75b syndicated credit facility. Original maturity
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- 38. <u>Brazil Power Development Trust</u> \$460.75m syndicated loan, guaranteed by Enron Corp., entered into December 2000 to fund construction of Brazilian power project. Original maturity August 31, 2002. Secured by the project's assets, which include several natural gas turbines being constructed. West LB as Lead Arranger and Administrative Agent. Barclays as participant with a \$19 m share of commitments (\$14m outstanding).
- 39. <u>JT Holdings Lease</u> \$110m syndicated facility entered into 1992. Original maturity December 7, 2005. Loan to an SPV that owns and leases to Enron a methanol plant. Secured by plant and certain Enron Corp. obligations. Citibank as Agent. Barclays as participant with a \$12m share.
- Rawhide Investors L.L.C. \$690m syndicated loan. Loan is to Rawhide, an investor in an Enron subsidiary that owns project assets in the US, Argentina and Brazil. Original maturity March 28, 2002. Citicorp as Agent. Barclays as participant with a \$35m share.
- 41. <u>Brazos VPP Trust</u> \$250m syndicated finance facility. Facility enabled an SPV (Brazos VPP Limited Partnership) to purchase oil and gas volumetric production payments (VPP's) from third parties. Original maturity December 31, 2005. Secured by VPP's. Bank of America as Agent. Barclays as participant with \$12m share of commitments.
- 42. JEDI SPV1, L.L.C. \$513m Term Loan 364-day syndicated credit facility supported by approximately 12m shares of Enron stock valued at the face amount of the loan via a share-settled swap between the SPV and Enron Corp. Chase as Agent and Arranger. Entered into December 1999. Maturity extended to June, 2001. Barclays served as one of four underwriters (Chase, Lehman, CSFB) initially funding \$128.375 m each. After bank syndication Barclays' share as participant was reduced to \$38.875 m.

Confidential Treatment Requested

- 43. JEDI II Bridge Loan \$500m. Chase as Agent for a six-month loan. JEDI II is a joint venture which included Enron subsidiaries as the 1% General Partner and a 49% Limited Partner, and CALPERS as a 50% limited Partner. Entered into December 1997. Barclays and Chase committed \$100m each and four other banks committed \$75m each. Repaid through financing referenced in #44 below.
- 44. JEDI II \$500m syndicated revolving loan entered into May 1998. (Commitment reduced to \$250m December 22, 2000). Original maturity June 2001. Chase as Agent. Barclays as a participant with a \$28.5m share. Outstanding loans repaid in September 2001 and commitments expired at the end of October 2001 without any loans outstanding.
- Enron Corp. Zero Coupon Convertible Senior Notes due 2021 Private Placement of notes with Salomon Smith Barney as Lead Placement Agent. January 31, 2001 placement raised \$1.25b (face amount of notes \$1.9b).
- 46. <u>Delta Energy Corporation Commodity Swaps</u> Entered into December 31, 1998. Delta, an SPV, borrowed \$500m from a Citibank conduit and used the proceeds to purchase and prepay for \$300m worth of natural gas and \$200m of crude oil at an agreed price. Barclays entered into offsetting energy swaps with Delta and an Enron subsidiary (Enron Capital and Trade Resources). The structure unwound November 17, 1999.
- 47. Commodity Swap Executed September 27, 2001. Barclays served as a swap counterparty to both Enron North America and CSFB for the energy price component of a \$300m commodity linked financing (crude oil prepay) provided to Enron by CSFB.
- 48. <u>Yosemite Securities Company Ltd.</u> £200m 8.75% Series 2000-A Linked Enron Obligations ("LEO's") due 2027. Issue date February 15, 2000. Lead Manager Salomon Smith Barney International. Barclays as co-manager, with Royal Bank of Scotland.
- 49. <u>JEDI I</u> Syndicated loan facility established in 1993 to JEDI. Repaid in 1997 with the proceeds of the JEDI facilities described in #7s 8.A, 8.B and 8.C above. Chase as Agent.

REVIEW & OUTLOOK

Enron's Enablers

The muck generated by Enron continues to spread, and last week it embraced two of the world's biggest financial institutions—J.P. Morgan Chase and Citigroup. We're not the type to easily bash business. But from the evidence we've

the evidence we've looked at, these banks deserve the beating they're now getting.

Citigroup and Morgan have some explaining to do.

Citigroup shipped that money to off-shore special-purpose entities

Morgan have ning to do.

Which, in turn, sent the money back to Enron, allowing Enron to ron, allowing Enron to

borrow money record the loans as prepay contracts.

This unsavory business involved "structured finance" deals that helped Enron hide some of its debt. Structured financings are transactions backed by bonds or loans called collateralized debt obligations. They are always horridly complicated and involve off-shore—and off-balance sheet—special-purpose entities. In the Enron arrangements, the instruments of choice were contracts for the future delivery of oil or gas for which Enron received its payment in advance of delivery.

These deals are now being investigated for criminal and civil liability by the Securities and Exchange Commission, Manhattan District Attorney Robert Morgenthau, the Federal Reserve Bank of New York and the Justice Department. But we did get a glimpse of what looks like financial flimflam during Congressional hearings last week. The outline that emerged from the Senate seems to show that Citi and Morgan were energetically helping Enron disguise reality from investors.

About a decade ago, Chase Manhattan Bank (now merged with J.P. Morgan) set up a special-purpose entity named Mahonia. Its very special purpose was to reduce Enron's taxes. By trading prepaid oil and gas contracts with Mahonia, Enron was able to transfer tax liabilities from one period to another.

As the years rolled by, the cash-up-front property of the contracts proved irresistible and Erron increasingly tapped Mahonia as a source of financing. The money flowed back and forth, the size of the transactions grew bigger and bigger and the repayment periods got longer and longer. Enron booked the money as eash from trading operations, thereby pumping up its cash flow and obscuring the size of its debt. Meanwhile, Morgan hedged its risk with credit derivatives and surety bonds from insurance companies.

Citigroup's structured financing was similar. The bank set up schemes—with names like

The result of this daisy chain was that Enron got almost \$\frac{9}{2}\$ billion that may have overstated its cash flow by 50%. That money also decreased Enron's debt by 40%, allowing it to avoid nasty credit downgrades. Meanwhile, ahem, the banks made hundreds of million of dollars in fees and commissions.

Yosemite, Delta and Roosevelt-designed to make the financing of Enron look like trading

activity. Money was raised from investors through the sale of credit-linked notes. Then

Then there are the broader malign effects. These financings and their accounting were cleverly crafted to fool others big time—investors in the structured deals themselves, insurance companies and Enron investors. Since the banks sold this type of financing to other energy companies, those investors were hoodwinked too. And don't forget the banks' own shareholders. As the details of their Enron deals have become known, investors in Citigroup and Morgan have watched their stock sink like a stone.

At the Senate hearings, Citigroup and Morgan defended themselves by arguing that it is up to their clients to properly account for, and disclose, these deals. This is not ethically reassuring. It sounds like the getaway car driver denying knowledge of what was going on inside the bank.

But the big loser in all this was the efficiency of financial markets. Good markets depend on transparency—investors need to have a grip on reality for capital to flow to its best uses. These structured financings were opaque in the extreme. Even if they were technically legal, they were in substance designed to mislead. What's legal isn't always ethical.

Citigroup CEO Sandy Weill all but admits this when he says that he wishes he'd never heard of Enron, and that while the practice was legal and standard, Citi won't do it again. While they await the legal consequences, the CEOs of Citigroup and Morgan could start to reclaim the reputations of their institutions by showing they can clean out their own stables without government orders.

Permanent Subcommittee on Investigations

EXHIBIT #195

COVINGTON & BURLING

1201 PENNSYLVANIA AVENUE NW WASHINGTON, DC 20004-2401 TEL 202.662.6000 FAX 202.682.6291 WWW.COV.COM WASHINGTON NEW YORK LONDON BRUSSELS SAN FRANCISCO LANNY A. BREUER TEL 202.662.5538 FAX 202.776.5538 LBREUER @ COV.COM

August 15, 2002

Mary D. Robertson Chief Clerk Permanent Subcommittee on Investigations 8617 Groveland Drive Springfield, VA 22153

Re: Transcript of Testimony of Moody's Investors Service

Dear Ms. Robertson:

Enclosed please find corrections made by John C. Diaz and Pamela M. Stumpp to the transcript of their testimony before a hearing of the Permanent Subcommittee on Investigations on July 23, 2002. Mr. Diaz and Ms. Stumpp testified on behalf of Moody's Investors Service at the hearing, which focused on the role of financial institutions in the collapse of Enron Corp. ("Enron").

Moody's would also like to provide additional clarification to a portion of its testimony, referenced on pages 112 to 114 of the enclosed transcripts. In a colloquy between Senator Fitzgerald and the panelists, Senator Fitzgerald referenced a conversation between Robert Rubin of Citibank and Peter Fisher, the Undersecretary of the Treasury for Domestic Financial Markets, regarding Enron and the credit rating agencies. Senator Fitzgerald indicated that Mr. Rubin had called Undersecretary Fisher to ask whether a Treasury official would "ask credit rating agencies to give Enron a break," and that Undersecretary Fisher declined to do so. Senator Fitzgerald then asked questions of the rating agency representatives on the panel, regarding whether anyone from Citibank or "any banks" called the rating agencies to "lobby you to give Enron a break."

In formulating her initial response to these questions, Ms. Stumpp mistakenly believed that Senator Fitzgerald was asking whether anyone from the government had contacted Moody's, in order to lobby on behalf of Enron. As Moody's received no such contacts from any government officials, Ms. Stumpp at first replied "No." Moody's did, however, receive some phone calls from investment bankers in November 2001 regarding Enron and a proposed merger between Enron and Dynegy, Inc. ("Dynegy"). Although Ms. Stumpp believes that these bankers did not call to "lobby" on behalf of Enron, had she fully understood Senator Fitzgerald's questions, she would have augmented her answer to indicate that Moody's had received these calls.

Permanent Subcommittee on Investigations
EXHIBIT #196

COVINGTON & BURLING

Mary D. Robertson August 15, 2002 Page 2

As the line of questioning continued, Mr. Diaz and Ms. Stumpp did in fact amplify their answer in that regard. Mr. Diaz referenced his previous testimony before the Committee on Governmental Affairs, in which he discussed these contacts from investment bankers regarding Enron and the Dynegy merger deal. Ms. Stumpp then also provided additional detail regarding a meeting that Moody's had with investment bankers regarding the potential merger. However, to ensure that the Subcommittee has the most complete record possible, Moody's wanted to provide this additional clarification to the Subcommittee.

Moody's again wishes to thank the Subcommittee staff for their assistance in this matter. Please do not hesitate to contact me if you have any additional questions.

Sincerely.

Lanny A. Breuer / CJB Lanny A. Breuer

Enclosures

cc: Linda J. Gustitus, Chief Counsel/Staff Director, Permanent Subcommittee on Investigations

Robert L. Roach, Counsel & Chief Investigator, Permanent Subcommittee on Investigations

WHAT MERRILL KNEW

"Enron believes they can structure anything to be off balance sheet."

-Merrill Lynch internal email, May 19, 2000, Bates MS 19571

"[T]hey [LJM] do a bunch of balance sheet deals similar to your barge deal"

-Merrill Lynch internal email, April 12, 2001, Bates MS 21257

"Merrill Lynch received a request from Enron that Merrill Lynch provide a \$25 million [loan] such [loan] would not be drawn. . . . The loan commitment is required by Enron's accountants to insure that the structure receives off-balance sheet treatment."

-Merrill Lynch Interoffice Memorandum, December 10, 1998, Bates MS 06910

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002

Permanent Subcommittee on Investigations
EXHIBIT #201

NIGERIAN BARGE CHRONOLOGY

June 1999

Enron purchases 9 power barges for \$56.5 million from the government of Philippines. Each of these barges operates as a floating electricity generator. Three of the nine barges are located in Nigeria. Enron contributes the Nigerian barges to a company it has created, Enron Nigeria Barge Limited (ENBL), in exchange for 100% of the company's stock, consisting of Preferred A, Preferred B and Common shares.

Mid to Late-December 1999

Enron, through Jeff McMahon, asks Merrill to invest in the Nigerian barges so that Enron's African division can book a \$12 million gain on the transaction and make its earnings target. In the course of negotiations, Merrill agrees to invest based upon Enron guarantees that it will arrange for the resale of Merrill's interest in the barges at a profit within six months time, i.e., by June 30, 2000. Merrill also asks Enron to guarantee it a specified rate of return on its investment. Enron ultimately agrees to provide Merrill with a \$250,000 upfront fee and assure it receives a 15% per annum rate of return.

Late December 1999

Merrill insists that the guarantee conveyed by McMahon be confirmed by Enron's chief financial officer Andrew Fastow. In a conference call between Enron and Merrill, Mr. Fastow confirms that Enron will ensure that Merrill will not own an interest in the barges in six months time and that Merrill will be "taken out" of the barge investment by June 30, 2000. In interviews with the Subcommittee staff, Merrill indicated it would not have proceeded with the transaction but for the representations made by Enron that it would be taken out within six months. Merrill also indicated it was aware that Enron was treating this transaction as a sale.

December 29, 1999

To complete the transaction, Merrill establishes a wholly owned corporation called Ebarge, LLC, which it later re-domiciles in the Cayman Islands. On December 29, 1999, just before the end of the fourth quarter, Ebarge purchases an interest in the Nigerian barges for \$28 million. Specifically, Ebarge pays ENBL, the Enron entity that owns the three Nigerian power barges, \$28 million by making a \$7 million cash investment and entering into a \$21 million loan financed by another Enron-related entity, Enron Nigeria Power Holding, Ltd. In exchange, Ebarge receives ENBL's Preferred A and Common Shares. Shortly thereafter, Merrill also receives the agreed-upon \$250,000 fee from Enron. Enron's guarantee to arrange for the resale of Merrill's interest in the barges by June 30, 2000, with a 15% return on its investment appears in an early version of the transaction documents, but not in the final written agreement. One Merrill employee told the Subcommittee staff that Enron informed Merrill that the assurances could not be put into writing.

Permanent Subcommittee on Investigations
EXHIBIT #202

June 13, 2000

Over the course of the following 6 months, Merrill reminds Enron on mulitple occasions of its promise to arrange for the resale of Merrill's interest in the barges. A June 13, 2000 email from one Merrill employee to another asks: "As we approach June 30, 2000 I am getting questions concerning Ebarge, LLC. It was our understanding that [Merrill] would be repaid its equity investment as well as a return on its equity by this date. Is this on schedule to occur?"

June 14, 2000

A Merrill employee drafts a letter to Enron reminding it of its obligation to arrange for the resale of Merrill's interest by a date certain with an agreed upon profit: "Enron has agreed to purchase the shares from Ebarge by June 30, 2000 for a purchase price... of \$7,510,976.65."

Later the same day, Dan Boyle of Enron informs Merrill that "Enron has lined up a new buyer" – LJM2, a Fastow-run partnership – to purchase Merrill's interest in the barges. A June 14 email by a Merrill employee notes that the conversation with Boyle "pre-empted our letter" and the "new buyer will purchase our ownership interest in the EBarge for the agreed upon amount."

June 29, 2000

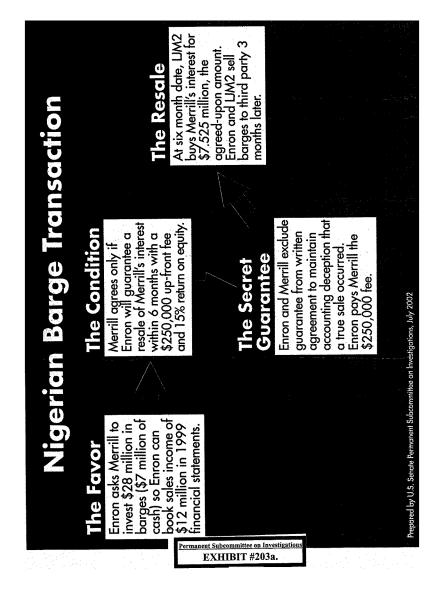
On June 29, 2000, LJM2 purchases Merrill's interest in Ebarge for \$7.525 million, which is equal to the agreed-upon 15% rate of return, and assumes the \$21 million loan. Merrill's total profit from the transaction is \$775,000 (\$7.525 million + \$250,000 fee - \$7 million initial layout). Notwithstanding loan documents which seem to require Ebarge to pay interest on the loan, Ebarge apparently did not pay any interest, maintaining that Enron was obligated to pay those sums. The evidence indicates that Enron may have also guaranteed LJM2 that it would receive a fee and specified rate of return on its "investment" in the barges.

An internal LJM2 document describing the transaction, prepared by an employee who works for both Enron and LJM2, explains why LJM2 purchased Merrill's interest in the barges: "Enron sold the barges to Merrill Lynch (ML) in December of 1999, promising that Merrill would be taken out by sale to another investor in June, 2000. The project could not be sold by June, so without LJM2's purchase Enron would have had to strain the LM/Enron relationship or repurchase the assets and reverse earnings and funds flow on the original transaction."

September 2000

As part of a larger transaction involving both Enron and LJM2, AES Corporation purchases LJM2's interest in Ebarge for \$31.2 million. Approximately \$23 million is used to pay off the outstanding loan (\$21 million initial loan + accrued interest) held by the Enron affiliate. LJM2 apparently received the remaining \$8.2 million (\$7.525 million return of initial layout + 15% return + 350,000 fee + \$25,000 in "expenses").

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002



NIGERIAN BARGE TRANSACTION

ENRON'S GUARANTEE	ARANTEE	LJM2'S PURCHASE	CHASE
Takeout By June 30, 2000	000	Purchase on June 29, 2000	0000
Return of Equity Return on Equity ¹	\$ 7,000,000 \$25,000 \$ 7,525,000	Purchase Price	\$ 7,525,000
Fee (paid by Enron)	\$ 250,000	Fee (paid by Enron)	\$ 250,000
Total to Merrill	\$ 7,775,000	Total to Merrill	\$ 7,775,000

Permanent Subcommittee on Investigations EXHIBIT #203b.

Assuming 15% interest at 6 months.

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002.

Factors Leading to Non-Recognition of Revenue in a Sales Transaction Under Generally Accepted Accounting Principles

Under SEC Staff Accounting Bulletin No. 101 - Relevant factors pointing to non-recognition of revenue in a sales transaction are:

- The seller has significant obligations for future performance to directly bring about resale of the product by the buyer.
- The risks of ownership did not pass from the seller to the buyer.

Permanent Subcommittee on Investigation
EXHIBIT #204a

The seller provides interest-free or significantly below market financing to the buyer beyond the seller's customary sales terms and until the products are resold.

Prepared by the U.S. Permanent Subcommittee on Investigations, July 2002.

How Nigerian Barge Deal Failed to Meet Generally Accepted Accounting Principles

- Enron had significant obligations for future performance to directly bring about resale of the Nigerian barges by Ebarge (a Merrill Lynch SPE)
- The risks of ownership did not pass from Enron to EBarge.
- Neither Ebarge nor Merrill paid interest on the financing provided by Enron.

Permanent Subcommittee on Investigation EXHIBIT #204b.

Prepared by the U.S. Permanent Subcommittee on Investigations, July 2002

MERRILL LYNCH ANALYSTS' RELATIONSHIP WITH ENRON AND IMPACT ON FEES

July 15, 1997 Merrill Lynch analyst, John Olson, downgrade's Enron's equity

rating

April 18, 1998 Memo from Investment Banking Division officials to Merrill Lynch's

President stating that Merrill Lynch was not selected as lead or comanager of \$750 million common stock offering. "...the decision was based solely on the research issue and was intended to send a strong message as to how 'viscerally' Enron's senior management feels about our research effort." Merrill Lynch's President was asked to call Ken Lay and Jeff Skilling in an attempt to have Merrill Lynch

inserted as a co-manager.

April 28, 1998 Merrill Lynch having been added as a co-manager on the common stock offering begins calling potential investors about this

investment. Merrill Lynch provides its calling list to Andy Fastow and Enron's investor relations group on April 28, 30, and May 4.

August 30, 1998 John Olson leaves Merrill Lynch.

November 16, 1998 New analyst, Donato Eassey, upgrades Enron's equity rating.

January 18, 1999 E-mail from Investment Banking Division to Merrill Lynch's

President with an update on Merrill's "relationship with Enron since you spoke to their CEO, Ken Lay, last spring regarding our difficult relationship in Research. It is clear that your responsive message was appreciated by the Company, and any animosity in that regard seems to have dissipated in the ensuing months...To that end, we have recently been awarded two significant mandates by Enron...Total fees to Merrill Lynch for these two transactions alone should be \$40-50

million."

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, July 2002.

Permanent Subcommittee on Investigations
EXHIBIT #205

U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS HEARING EXHIBIT VIDEOTAPE EXCERPTS

Excerpts, lasting approximately 7 minutes, are taken from a videotaped portion of a presentation about LJM2 made by Andrew S. Fastow and Michael J. Kopper of Enron Corporation on or about September 16, 1999, for Merrill Lynch's Private Equity Group representatives. Location of presentation was Merrill Lynch North Tower Building at 250 Vesey Street, New York City, New York. The complete videotape, about 50 minutes in length (bates stamped MS 21269), was produced by Merrill Lynch in response to a Subcommittee subpoena.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, July 2002

Permanent Subcommittee on Investigations
EXHIBIT #206a

2055

TRANSCRIPT OF EXCERPTS FROM VIDEOTAPE RECORDING

LJM2 PRESENTATION BY ANDREW S, FASTOW AND MICHAEL J. KOPPER OF ENRON CORP. BEFORE MERRILL LYNCH PRIVATE EQUITY GROUP REPRESENTATIVES

On or about September 16, 1999

MR. FASTOW: This is what I'd like to do. I mean, being CFO of Enron is as good a CFO position as anyone could have in America, I think. This is what I want to be my next step. I want to have a – I want an investment business, and this is a unique opportunity to set it up with unique access to deals and to develop that track record I need to develop.

MR. FASTOW: Let me simply say I can do twice better than anyone else since I will have better information than anyone else. [Laughter.]

MR. FASTOW: The business units own their assets at Enron, manage their portfolios, manage their risks in their portfolios. Do I know everything that's going on? Do I have to sign off on every deal that goes in there? Yes. So I'm in the unique position of not having the ownership or the responsibility or obligation to sell the assets, but I know everything about them and I've been involved in their approval and maybe in their structuring.

MERRILL LYNCH PARTICIPANT: Isn't your privileged position of having better information than any other bidder going to deter other bidders which in turn [inaudible]

MR. FASTOW: Really, it isn't. It is in Enron's best interest because Enron needs the capital, number one, okay? They want to expand their businesses, huge opportunities.

Number two, I'm not going to buy a deal and pay a lower price than someone else would pay in the market. It's that simple. So think about it as no harm, no foul. Even if someone three years from now comes back and says LJM2 -- LJM2 earned a 300 percent IRR; Enron must have sold those deals at the wrong price. It was the best price in the market that they could get. We have competing quotes to validate it. So, again, if I didn't earn 300 percent, someone else would have earned 310 percent.

2056

MERRILL LYNCH PARTICIPANT: Do the other bidders that are out there know that there's an insider there that can [inaudible] have this opportunity? Are they aware that you're there? Or is this sort of like--like going to an auction...

MR. FASTOW: It's like an auction. It's . . .

MERRILL LYNCH PARTICIPANT: -where there is a house bid on the inside and you don't know what that house bid is?

MR. FASTOW: That's right.

MR. FASTOW: The principals have all been involved in virtually all aspects of the fund business. That's a little hard to read, but I think you get the idea. We've been doing this for a while. We've been together as a team for a while. And I think we understand the issues that our investors will have, and the philosophy is generally to address those issues before they become issues. [Chart displayed in background: "Involvement of Principals in Price Funds," listing Andrew Fastow, Michael Kopper, Ben Glisan and Anne Yaeger.]

CHART DISPLAYED BY MR. FASTOW:

Why LJM2 Is Unique

- 1. Preferred access to proprietary deal flow
- 2. Enron and its investments have significantly outperformed the market
- 3. Investments analyzed/operated/structured by Enron
- 4. Ability for LJM2 to evaluate investments with full knowledge
- 5. LJM2 speed and knowledge advantage
- 6. Financial expertise of Principals

MERRILL LYNCH PARTICIPANT: As you probably have all concluded, this transaction is probably going to take a bit of extra work in developing investor--potential investor lists. And as we're probably a good week or two away from having a final offering memorandum, what I'd like to endeavor to do definitely within the next week, and particularly in connection with a conversation we plan to have or we have scheduled with Andy about a week from now, is really have all of you think about the specific targeted investors we'd like to go to with this.

MERRILL LYNCH PARTICIPANT: This is really a culmination of what has been, Andy, I believe, about a five-year discussion with you about fundraising in one form or another. In fact, I dusted off the file the other day, and I do have 1994 correspondence.

MR. FASTOW: I won't tell you what Ben's first reaction was four years ago. [Laughter.]

MERRILL LYNCH PARTICIPANT: In addition, I failed to introduce at the beginning of the program here, we also have the benefit of some great Merrill Lynch resources in connection with this transaction.

MR. FASTOW: No, we haven't taken it out to the institutional market. We've had a couple of discussions, obviously, with Ben and then the team here and with one other team that probably you know the people over there. And—but we—we haven't taken it out into the market until we felt we got the consensus from the people who know the market best. You're--you're the people who know the market best. And so we count a lot on Ben and David and the team here, their counsel as well as their ability to [inaudible]. So I didn't think—I agreed with them, until very recently, until we had the track record to show, four prior deals and things like that, with varying degrees of involvement, it probably wasn't something we should take out. But I think now it's something we can take out. And, again, based on the initial response from institutions that know us very well, our banks, et cetera, it's something that—that people are comfortable with. So I think we have a real opportunity here to bust it wide open.

MERRILL LYNCH PARTICIPANT: As you would expect, Andy as chief financial officer at Enron, is heavily banked, so to speak. And as a result, there are five or six of the name brand banks who have stepped up and said they'll commit to this. I mean, if—if anything, what we—our objective here is to—is to modulate the size of the banks because the real money that Andy wants to get at is the pension fund money and, to a lesser extent, insurance.

2058

UNIDENTIFIED VOICE: Never going to get to the billion or 2 billion fund by doing commercial --

MERRILL LYNCH PARTICIPANT: Right. Right. That will stick and grow. And all the, as you can imagine, the name brand commercial banks know Andy, know Enron. It's a quick, easy decision for them, or straightforward. It's a straightforward decision.

MR. FASTOW: I think you have to go back to the volume of the deals and the nature of the deals. The prime hunting ground is going to be highly complex, structured deals that have to be moved in a short time frame. There just isn't enough of a market for that.

MERRILL LYNCH PARTICIPANT: A couple more mundane questions. Ben and Michael, do they work for Enron or do they work for the fund? And are they compensated by the fund or by Enron?

MR. FASTOW: All of the-all of the issues related to my compensation that I addressed are the same with them. They're employees of Enron, and, again, until we're in a position where it would be prudent to step out of that role as employees of Enron, we will continue to be employees of Enron. Base and bonus are pretty much within a defined range for all of us at this point, and we would work arrangements with Enron to make sure enough of our time was available to be involved in LJM to accomplish what we have to accomplish at LJM.

MERRILL LYNCH PARTICIPANT: Okay. Thank you, everybody, for your attention here -

 $\boldsymbol{\mathsf{MR.FASTOW}}\xspace$. Thanks very much. Thanks especially given the weather.

MERRILL LYNCH PARTICIPANT: And now you can have lunch.

- End of Tape -

Prepared by U.S. Senate Permanent Subcommittee on Investigations, July 2002

2059

APPROPRIATION REQUEST-COVER PAGE ION REMOVE (\$ in Thousands) Project Name:

Management Unit:

Enron Nigerian Barge

Group:

Financial Commitment:

Project Start / Finish:

Needs to Close by 12/31/99 -

Takeout by 6/30/00

CICG

BK

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings

B-, B3

(Moody's/S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian

Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year and 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

NA

Proposed \$250,000 plus 15% per annum or a fikt 22.5% return per annum.

MI. Research Coverage:

Leo J. Kelser

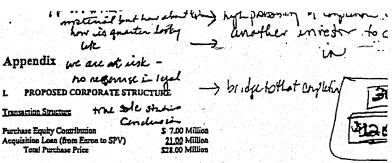
Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be \$39 million from the Nigerian government. Enron wants to sell the first 3 of cash flow is projected to be339 million from the Nigerian government. Enton wants to sen use 1133 J years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Euron will 'acilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

Permanent Subcommittee on Investigation EXHIBIT #207

	APPROPRI	ATION REQUEST APPROVA	LS _
Management Unit:	CICG	Project Name: Enron Nig	erian Barge Equity
		Financial Commitment:	\$7 million
SPONSOR:			
Originator.			
	Rob Furst		
		그는 한 분입으로 먼저	
Mgmt Unit Controller:			
Mgmt. Unit Head:			
ngine om nobe.			
Group Finance Director			
Group Finance Director			
Group Finance Director			
Stroup EVP:			
Sroup EVP:		Corporate Approvals	
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Group Finance Director. Stroup EVP: Other Reviews Set Markets Capital Committee:	Group/Date	Chief Financial Officer: Executive Committee:	
Other Reviews Other Markets Capital Committee:	Group/Date	Chief Financial Officer:	



Basis: 25% Internal Rate of Renzm on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares Enron will own the Preferred B Shares. The nummary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cath Flow rights of each shareholder class after the previous class abareholder has received their percentage share of the Cath Flow.

Economic Interest (Percent of Cash Flow ("CF")

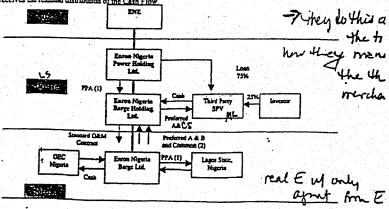
 Stock Class
 Fre Trigger Date
 Post Trigger Date

 Preferred A (Purchaser)
 0.1% of CF
 0.1% of CF

 Preferred B, (Euron)
 9.9% of CF After Pref A
 99.0% of CF After Pref A

 Common Stock (Purchaser)
 100.005 of CF After Pref A&B
 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cath Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enrol Preferred B Shares receive approximately 99.0% of the Cath Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cath Flow.



TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the FPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

BARGE PROJECT ECONOMIC SUMMARY IL.

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1.500
Working capital and Spares	2,119
Comingency .	121
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9 123	\$13.367	\$13.706	\$3.410	239 691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

ENRON OVERVIEW

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Euron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was involved

- Lead runnaged Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)
 - Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.

 - Currently working on several buy side advisory assignments

 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

Currently working with the CFO to raise a \$500 million private equity fund (LIM2)

Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

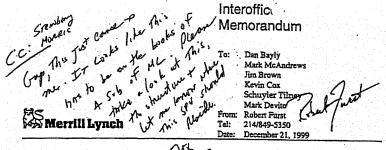
The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-band fiber optic network will be the first Americas and the Pacific Rim. Once completed, the Company's long-band fiber optic network will be the first internet Promotol backbone in the U.S., Additionally, through its international water company, Euron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were \$34 billion and its equity marker expinalization was approximately \$312 billion. For the year ended December 31, 1995, Enron generated revenue of \$31.3 billion, up \$34 over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of \$0% and 30% over the period from 1995 to 1998, respectively, and has been named the most lanovative company in the world by Forbes for the past four years.

Earon is organized as a holding company with four energy-related operating subsidiaries (Earon North America, Earon Gas Pipelines, Earon Energy Services and Portisad General) a telecommunications subsidiary (Earon Communications) and an international water company (Azurix). Earon's regulated business includes two operations - natural gas pipelines, comprised of Earon's General (Earon recently smooth of Earon's federally regulated internate untural gas pipelines, and Portland General (Earon recently smooth of Earon's federally regulated internate untural gas pipelines, and Portland General (Earon recently smooth of Earon's federally regulated internate untural gas pipelines, and Portland General (Earon North America, is currently Earon's legists business as measured by operating profit, and provides commodity sales (assural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and immunicabilly. Enron's newest energy business is its retail energy services business, comprised of Earon Energy Services, which provides total energy outstourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Americ, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long hand fiber optic network that will offer broadband application services over an internet Protocol network. Additionally, Enron Communications is pursuing an operatinty to create a market for the trading of bandwidth expacity on fiber systems. Americ is an \$350 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private tector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.



Subject: Enron Corp.

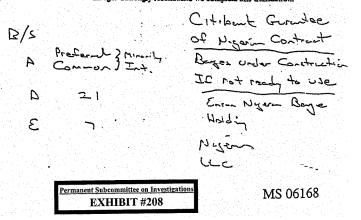
Jeff, McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase S7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$10MM of earnings. The transaction must close by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they believe our hold will be for less than six months. The investment would have a 22.5% return.

The Transaction:

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is 539 million. Enron wants to monetize the first 3 years of cash flow for \$28MM. They will do this by establishing a special purpose vehicle. The special purpose vehicle will be capitalized by our \$7MM investment and a \$21MM loan from Enron Corp. Enron has a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end.

ML Rational for pursuing this transaction:

Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions like this as a way to differentiate ML from the pack and add significant value. I completed several financings like this at CSFB and they all worked to CSFB's advantage. I strongly recommend we complete this transaction.



2065

Nigeria Barge Project Sell Down Transaction and Shareholder Structure

17 December 1999

The following transaction structure has been developed to allow the Purchaser to purchase 90% of the projected after tax cash flow to be generated over three (3) years by the 90 MW Nigeria-Barge Project (the "Barge Project") while 1) funding the purchase price with 25% equity and 75% seller financed debt, 2) basing the purchase price on the net present value of such cash flow and providing a projected yield to purchaser of approximately 25% on invested equity and 3) allowing Enron to book a gain based on the sale of such cash flows.

Following extensive review and discussion with Enron accounting staff and outside auditors, the following structure has been developed and approved to ensure the desired accounting treatment for the transaction. Whereas the structure is more complex than desired and originally envisaged, it is necessary to meet all of the objectives for the transaction.

A Few Definitions

Cash Flow: The operating distributable cash flow generated by the Barge Project from all revenues less all expenditures including but not limited to operating and administrative costs, fuel, all taxes and debt service; and as further delineated in the Financial Model.

Cumulative Cash Flow: The aggregate monthly cumulative Cash Flow commencing on the commercial operations of the Barge Project and ending on the Trigger Date (as defined below).

Early Liquidation: The termination of the Power Purchase Agreement or the otherwise winding up of Enron Nigeria Barge Ltd. prior to the Trigger Date.

Liquidation Proceeds: The cash proceeds from the Early Liquidation of the Barge Project excluding proceeds (if any) from the sale or disposition of the barges.

Trigger Cash Flow: The projected Cash Flow (approximately \$44.1 million) to be generated by the Barge Project during its first 3 years of operations.

Trigger Date: The date upon which the Cumulative Cash Flow equals the Trigger Cash Flow.

Transaction Structure

Purchaser Equity Contribution
Acquisition Loan (from Enron to Purchaser)
Total Purchase Price

\$ 7.00 Million 21.00 Million \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project

Shareholder Structure

There will be three classes of stock, two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Enron will own the Preferred B shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash-Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF"))

Stock Class
Preferred A (Purchaser) Pre Trigger Date Post Trigger Date 0.1% of CF 0.1% of CF Preferred B (Enron) 9.9% of CF After Pref A 99.0% of CF After Pref A Common Stock (Purchaser) 100.00% of CF After Pref A & B 100.00% of CF After Pref A & B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Early Liquidation

In the event of an Early Liquidation, the Purchaser shall receive via the Preferred A Shares an amount stipulated in an appendix to be attached to the Share Purchase Agreement. Generally, the Early Liquidation proceeds payable to Purchaser via the Preferred A Shares and included in the appendix shall be designed to ensure the Purchaser a 25% internal rate of return on invested equity. Upon an Early Liquidation, The Preferred B Shares shall then receive 99.0% of the remaining Liquidation Proceeds after the liquidation payment to the Preferred A shares and all Phase I Facilities (as defined in the Power Purchase Agreement). The Common shares shall receive 100.00% of the remaining Liquidation Proceeds after the payments to the Preferred A and Preferred B Shares.

Return Considerations

If the Cumulative Cash Flow equals the Trigger Cash Flow at the end of 3 years of operations, the return to the Purchaser would be approximately 25%.

If the Cumulative Cash Flow equals the Trigger Cash Flow before the end of 3 years, then the return to the Purchaser would exceed 25%. If the Trigger Cash Flow level is reached after the end of 3 years, the Purchaser's return may be below 25%. It is intended for the Purchaser to take this risk and upside opportunity.

If there is an early liquidation, and there are sufficient liquidation proceeds (which the letter of credit shall ensure) the liquidation payment schedule is designed to ensure the Purchaser an approximate 25% return on invested equity.

Voting Rights

Each share class shall have the following number of shareholder votes and shall also appoint the same number of directors to the Board of Directors. This structure is necessary to ensure conformity to Nigerian

Share Class	Votes	Din	ectors
Preferred A	1	1	
Preferred B	8	8	
Common	1	-1	

1.4 Barge Project Economic Summary

Cost Summary (US\$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working Capital and Spares	2,119
Contingency	181
Total Costs	\$45.614

Projection of 90% of Net Cash Flow (US\$000)

Year 2000	Year 2001	Year 2	002 Year 2003	Total
\$9,213	\$13,362	\$13,70	6 \$3,410	\$39,691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and 90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

From: Sent: To: Subject:

DiMassimo, Vincent J. (Corp Credit - NY)
Tuesday, January 22, 2002 5:40 PM
Cox, Kevin (Corporate Risk Management)
AMERICAS CREDIT FLASH REPORT; Week ending 12/3/99

Permanent Subcommittee on Investigations EXHIBIT #209

MC 06150

Americas Credit Flash Report: Week ending 12/23/99

Summary

- Slow week in advance of holidays and Y2K countdown.
- Most unusual transaction of the week was IBK request to approve Enron Corporation "relationship" loan — ML asked to invest of \$7mm equity in Nigerian power project.

REDACTED BY PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

1. Framework Issues/Exceptions

2. Significant Credit Events of the Week Enron Corporation (ML-6)

Requested by Enron Corporation to make a \$7mm equity investment in an Enron sponsored Nigerian power project. The project consists of three barge-mounted power plants Enron will place into service in Nigeria in February 2000. Enron had been speaking with another investor that apparently could not close on the deal prior to year-end. The transaction will allow Enron to move assets off-balance sheet and book future cash flows currently as 1999 earnings (approximately \$12mm). The proposal went to DMCC and has been signed off on by Tom Davis. IBK was supportive based on Enron relationship (approx. \$40mm in annual revenues) and assurances from Enron management that we will be taken out of our \$7mm investment within the next 3-6 months. Enron itself will have \$45mm invested in the project. (T. Trinkel/P. Wood)

Bridge Information Systems (ML-8)

REDACTED BY PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Banco Latinoamericano de Exportaciones (BLADEX) (ML-7)

REDACTED
BY
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Americas Credit Flash Report: Week ending 12/17/99

3	I. Other Counterparty Issues
I	REDACTED
	BY
	PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

- 4. New Product Commentary
- . 5. Other Initiatives
 None

December 23, 1999

Mr. Jeff McMahon Executive Vice President and Treasurer Enron Corp. 1400 Smith Street Houston, TX 77002-7369

Dear Mr McMahon:

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is pleased to act as exclusive advisor to Enron Corp. ("Enron") for the sale of equity in Enron Nigeria Barge Ltd ("ENB"), representing the rights to certain cash flows generated via the sale of electricity to Lagos State Government under a power purchase agreement (together with the Equity Investment, as defined below, the "Transaction"). Lagos State Government's obligations under the power purchase agreement will be guaranteed by the Federal Republic of Nigeria

As Enron's advisor. Merrill Lynch will (i) form a U.S. special purpose entity (the "SPE"), and (ii) fund the purchase by the SPE of a non-controlling \$28 million equity interest in ENB, \$21 million of which the SPE will borrow from Enron or an affiliate on a non-recourse basis (the "Equity Investment"). The SPE will receive a yield of approximately 15 00% per annum on \$7 million of its equity investment. The SPE or its equity interest in ENB will be subsequently sold to third party equity investors or purchased by Enron or an affiliate. The closing of the Equity Investment will be subject to documentation acceptable to the parties, and the Transaction complying with all applicable laws and regulations

Fees and Expenses

As compensation for Merrill Lynch assisting in the structuring of the Transaction, as advisor. Enron will pay to Merrill Lynch an advisory fee (the "Advisory Fee") equal to \$250,000. Payment of the Advisory Fee will occur upon closing of the Equity Investment.

Enron shall be responsible for all costs and expenses incurred in structuring, placing and closing the Transaction. Enron shall be obligated to pay all costs and expenses of the Transaction regardless of whether the Transaction is actually consummated. Such costs and expenses shall include, but not be limited to, reasonable legal fees and disbursements of counsel to the SPE and Merrill Lynch, as well as the cost of establishing the SPE, its ongoing fees and expenses, filing and recording fees and reasonable out-of-pocket expenses of Merrill Lynch.

Permanent Subcommittee on Investigations
EXHIBIT #210

December 23, 1909 Page 3 of 4

4. Notice. Defense and Settlement

An Indemnified Party shall notify Enron in writing promptly after it receives notice of any claim or the commencement of any action or proceeding with respect to which it may seek indemnification hereunder, provided, however, that failure to notify Enron shall not relieve Enron from any liability that it may have to such Indemnified Party except to the extent Enron is materially prejudiced by such failure. Enron will assume the defense of such action or proceeding and will employ counsel satisfactory to the Indemnified Parties and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, an Indemnified Party will be entitled to employ counsel separate from counsel for Enron and from any other party in such action if such Indemnified Party determines that a conflict of interest exists which makes representation by counsel chosen by Enron not advisable or if such Indemnified Party reasonably determines that Enron's assumption of the defense does not adequately represent its interest. In such event, the fees and disbursement of such separate counsel will be paid by Enron.

Enron will not, without Merrill Lynch's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification could be sought under the indemnification provision of this Agreement (whether or not Merrill Lynch or any other Indemnified Party is an actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising out of such claim, action or proceeding.

In the event Merrill Lynch or any Indemnified Party is requested or required to appear as a witness in any action brought by or on behalf of or against Enron or any affiliate or any participant in a transaction covered hereby in which Merrill Lynch or such Indemnified Party is not named as a defendant. Enron will reimburse Merrill Lynch for all expenses incurred by it in connection with such Indemnified Party's appearing and preparing to appear as a witness, including, without limitation the fees and disbursements of its legal counsel, and to compensate Merrill Lynch in an amount to be mutually agreed upon.

5. Survival of Certain Provisions

The representations, warranties, indemnities, and agreements of Enron and its officers or representatives shall remain in full force and effect regardless of any investigation made by or on behalf of Enron or Merrill Lynch or any affiliates, and shall survive the consummation of the Transaction

6. Amendments: Survival of Provisions

No waiver, amendment or other modification of this Agreement shall be effective unless in writing and signed by each party to be bound. The provisions relating to expenses, indemnification, limitations on the liability of Indemnified Parties, contribution, settlements, choice of law and waiver of the right to trial by jury will survive any termination of this letter agreement.

December 23, 1900 Page 4 of 4

7. Parties

This Agreement shall inure to the benefit of and be binding on Enron, Merrill Lynch and their respective successors. Enron has retained Merrill Lynch to act as an independent contractor, and any duties of Merrill Lynch arising out of its engagement shall be owed solely to Enron. This Agreement does not confer any rights upon any person other than Enron, including, but not limited to, any security holder, employee, or creditor of Enron. This Agreement incorporates the emire understanding of the parties with respect to this engagement of Merrill Lynch by Enron, and supersedes all previous agreements regarding such engagement, should they exist.

8. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK;

9. Consent to Jurisdiction and Waiver of Jury Trial

Enron hereby: (i) consents to personal jurisdiction and service and venue in any court in which a claim subject to this Agreement is brought against Merrill Lynch or any other Indemnified Party, and (ii) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) related to or arising out of the engagement of Merrill Lynch pursuant to, or the performance by Merrill Lynch of the services contemplated by, thus Agreement.

Please confirm that the foregoing correctly sets forth our agreement by signing and returning to Merrill Lynch the enclosed duplicate copy of this Agreement.

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שנים ביווע בביינים התובא: 25 פני בא בבל

Marrill Lynch

James A. Brown
Managing Director
Dest Marecto
Global Symptomed Finence
Gengerace and Institutions.
Chemit Groups
World Founcest Center
North Trees
New York Deep Vorz 10261-12
FAR 312 449 1734

December 29, 1999

Mr. Andrew S. Fastow
Executive Vice President and Chief Financial Officer
Enron Corp.
1400 Smith Street
Houston, TX 77002-7169

Dear Mr. Fastow:

Merrill Lynch, Pierce, Fenner & Smith Interporated ("Merrill Lynch") is pleased to as a exclusive advisor to Enron Corp. ("Enron") for the sale of armty in Enron Nigeria Barge Ltd. ("ENB") (the "Transaction").

As Euron's advisor, Merrill Lynch will (i) form a U.S. special purpose entity (the "SPE"), and (ii) faind the purchase by the SPE of a non-committing \$135 million equity interest in ENB, \$21 million of which the SPE will borrow from Euron or an affiliate on a con-recourse base (the "Equity Investment"). The closing of the Equity Investment will be subject to documentation acceptable to the parties, and the Transaction complying with all applicable laws and regulations.

1. Fees and Expenses

As compensation for Mertill Lynch essisting in the structuring of the Transaction, as advisory (the "Services"), Enron will pay to Mertill Lynch an advisory fee (the "Advisory Fee") equal to \$250,000. Payment of the Advisory Fee will occur upon closing of the Equity Investment.

Enros shall be responsible for all poets and expenses incurred in structuring, placing and closing the Transaction. Earon thall be obligated to pay all costs and expenses of the Transaction regardless of whether the Transaction is actually consummated. Such costs and expenses thall include, but not be limited to, reasonable legal fees and dishursements of counted to the SPE and

DEC 29 1999 15:38

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Permanent Subcommittee on Investigations
EXHIBIT #211

שני בא ישו שוצויה היוצויה שני שני של

Merrill Lynch

Merrill Lynch, as well as the cost of establishing the SPE, its ongoing fees and expenses, Sing and recording fees and reasonable out-of-pocket expenses of Marrill Lynch.

2. Indemnification. Contribution and Limit on Liability

Erron will indemnify and hold harmiers Merril Lynch and its affiliates, and it and their respective directors, officers, employees, agents and controlling persons (Merril Lynch and each such person being an Indemnified Party') from and against any and all losses, caums, damages and liabilities, joint or several as intured, to which such indemnified Party may become subject under any applicable United States federal or state or non-U.S. Into or otherwise, and related to or arising out of the engagement of Merrill Lynch pursuant to, and the performance by Merrill Lynch of the Services at contemplated by, this Agreement, provided, however, that Isram will not be liable under clause (2) hereof to the extent that any loss, claim, damage or liability is found in a food judgment by a court to have resulted from Merril Lynch's bad faith or gross negligence in performing the Services described above. Earon will also reimburse any Indemnified Party for all expenses (including counsel feet and expenses) as they are incurred in connection with the investigation of, preparation for or defense of any pending or threatmed claim or any action or proceeding arising therefrom, whether or not such Indemnified Party is a party and whether or not such claim, action or proceeding is initiated or brought by or on behalf of Erron. No Indemnified Party shall have any liability (whether direct or underes, in contrast or error or otherwise) to Earon or its security holders or creditors related to or arising out of the engagement of Merrill Lynch pursuant to, or the performance by Merrill Lynch of the Services comemplated by, this Agreement except to the extent that any lost, claim, damage or liability is found in a final judgment by a court to have resulted from Merrill Lynch's bad faith or gross comemplated by, this Agreement except to the extent that any lost, claim, damage or liability is found in a final judgment by a court to have resulted from Merrill Lynch's bad faith or gross counterplated.

If the indomnification provided for in this Agreement is for any reason held unenforceable, Enron will countibute to the losses, claims, damages and liabilities, as incurred, for which such indomnification it held unenforceable in such proportion as is appropriate to reflect the relative benefits to Enron, on the one hand, and Morrill Lynch, on the other hand, of the Transaction (whether or not the Transaction is consumnated), provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(t) of the Securities Act of 1913) shall be emitted to contribution from any person who was not guilty of such fraudulent misrepresentation. For the purposes of this paragraph, the relative benefits to Enron and Morrill Lynch of the Transaction shall be deemed to be in the same proportion that the total value of equity in ENB placed or contemplated to be placed, bears to the Advisory Fee paid or contemplated to be paid; provided, however, that, to the extent permitted by applicable law, in no event shall the Indemnified Parties be required to contribute an aggregate amount in excess of the aggregate Advisory Fee annually paid to Merrill Lynch under this Agreement.

3. Notice. Defense and Settlement

DEC 29 1999 15:38

An Indomnified Party shall portfy Earon in writing promptly after it receives notice of any claim or the commencement of any action or proceeding with respect to which it may seek

212 445 9215 PAGE.83

Merrill Lynch

indemnification hereunder, provided, however, that failure to notify Euron shall not relieve Euron from any listility that it may have to such Indemnified Party except to the extent Euron is materially projudiced by such failure. Euron will assume the cofense of such among or proceeding and will employ counsel satisfactory to the Indemnified Parties and will pay the feet and expenses of such counsel. Norwithstanding the preceding sentence, an Indemnified Party will be acted to employ counsel reparate from counsel for Euron and from any other party in such acted it such Indemnified Party determines that a conflict of interest exists which makes representation by counsel chosen by Euron not advisable or if such indemnified Party reasonably determines that Euron's assumption of the cofense does not acceptately represent its interest. In such event, the fees and disbursement of such separate counsel will be paid by Euron.

Enron will not, without Merrill Lynch's prior written consent, tettle, compromise or consent to the entry of any judgment in any pending or threatened claim, amon or proceeding in respect of which indemnification could be sought under the indemnification provision of this Agreement (whether or not Merrill Lynch or any other Indemnified Party is an actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising out of such claim, action or proceeding.

In the event Merrill Lynch or any Indemnified Party is requested or required to appear as a wimess in any action brought by or on behalf of or against Enron or any affiliate or any participant in a transaction covered hereby in which Merrill Lynch or such Indemnified Party is not named as a defendant, Enron will reinhurse Merrill Lynch for all expectes incurred by it in connection with such Indemnified Party's appearing and preparing to appear as a witness, including, without limitation the fees and disturtsements of its legal course, and to compensate Merrill Lynch in an amount to be mutually agreed upon.

4. Survival of Certain Provisions

The representations, warranties, indomnities, and agreements of Erron and its officers of representatives thall remain in full force and effect regardless of any investigation made by or obbehalf of Erron or Merrill Lynch or any affiliates, and thall survive the consummation of the Transaction.

DEC 29 1599 15:31

212 449 5215

THE Merrill Lynch

5. Amendments: Survival of Provisions

No waiver, amendment or other modification of this Agreement that be effective butless in writing and signed by each party to be bound. The provisions relating to expenses, indemnification, limitations on the liability of Indemnified Pernes, contribution, settlements, choice of law and waiver of the right to trial by jury will survive any termination of this letter agreement.

6. Parties

This Agreement shall inure to the benefit of and be binding on Enron, Merrill Lynch and their respective successors. Enron has retained Merril Lynch to are as an independent odnitration, and any duties of Merrill Lynch arising out of its engagement small be owned solely to Enron This Agreement does not confer any rights upon any person other than Enron, including but not limited to, any security holder, employed, or creditor of Enron. This Agreement inderposites the entire understanding of the parties with respect to this engagement of Merrill Lynch by Ehron, and supersodes all previous agreement regarding such engagement, thould they exist.

7. Governing Law

THIS ACREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

DEC 25 1995 15:31

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DEE-29-1959 15:82

Merrill Lynch

Please confirm that the foregoing contently sets forth our agreement by againg and returning to Marrill Lynch the enciosed duplicate copy of that Agreement

MERRILA LYNCK, PIERCE, FENNER & SMITH INCORPORATED

Title Transfing Nineral

EFP = CFO

212 449 9819

PROE. 06

TUTAL P. 96

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MERRILL LYNCH

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Investment Banking Group



200 Crescent Court Suite 550 Dallas, Texas 75201

Facsimile Cover Sheet

Van Boyle

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From: Rob Furst

Phone: (214) 849-5350

Fax: (214) 849-5399

Date: December 21, 1999

26 pages including this cover page.

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Permanent Subcommittee on Investigations EXHIBIT #212

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Confidential Memorandum

Preferred Stock Representing a Set Duration 90% Economic Interest in

ENRON NIGERIA BARGE LTD.

IMPORTANT NOTICE TO RECIPIENT

The information contained in this Preliminary information Memorandum (this "Information Memorandum") is being furnished by Enron Nigeria Barge Holdings Ltd., a Cayman Islands company ("Enron"), to a limited number of selected persons who have expressed interest in acquiring redeemable preference shares (the "Shares") of Enron Nigeria Barge Ltd. (the "Company") entitled, subject to the terms of the Share Purchase Agreement (as hereinafter defined), to a distribution of 90% of the Cash Flows of the Company, a private, limited liability company incorporated under the laws of the Federal Republic of Nigeria and a wholly owned subsidiary of Enron.

The sole purpose of this Information Memorandum is to provide preliminary background information on a confidential basis to assist the recipient in deciding whether to proceed with an investment in the Company and the Shares. This Information Memorandum is not an offer, nor is it intended to provide the basis of any credit or any other evaluation and is not to be considered as a recommendation by the Company or any other person that any recipient of this Information Memorandum should purchase the Shares or provide loans or other credit to the Company or any of its affiliates. Each recipient of this Information Memorandum contemplating purchasing shares of, or otherwise investing in, the Company must make (and will be deemed to have made) its own independent investigation and appraisal of the operations, financial condition, prospects, creditworthiness, status and affairs of the Company, the Project and any other matter it considers relevant to a decision to purchase the Shares, or to provide loans or other credit to the Company, including, without limitation, its own independent investigation and appraisal of the risks.

This Information Memorandum is directed at persons whose ordinary activities involve them, as principal or as agent, in acquiring, holding, managing or disposing of investments of this nature. It would be imprudent for other persons to respond to this Information Memorandum.

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The information contained in this Information Memorandum, except where the context expressly states otherwise, has been based on the assumption that the Project is implemented as described herein. Any financial projections in this Information Memorandum are estimates prepared and set out for illustrative purposes only, have been prepared using data available to date and do not constitute a forecast. Such financial projections may be affected by changes in economic and other curcumstances and the reliance, if any, that the recipient of this Information Memorandum piaces upon such projections is a matter for its own commercial judgment. No representation or warranty

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Certain documents and agreements are described herein in summary form and, in the case of agreements or amendments to agreements not yet executed, are described based on drafts of such agreements or amendments as proposed by the Company. The summaries do not purport to be complete descriptions of such documents and agreements. They are intended only to assist in a reading of such documents and agreements, are qualified in their entirety by reference to the actual documents and agreements and should not be relied on as a basis for contracting. With respect to the discussions herein concerning the development, financing, construction and operation of the Project, the Company has not yet finalized (or in certain cases commenced) negotiation of the documents and agreements that will be required in connection therewith; consequently, said discussions merely reflect the Company's assumptions and current expectations concerning the manner in which the Project will be developed, financed, constructed and operated and should in no event be viewed as either (i) a final, complete or accurate description as to how such matters will ultimately be resolved or (ii) a representation or warranty (expressed or implied) from the Company that such matters will be resolved as discussed herein.

This Information Memorandum contains descriptions and other information believed to be accurate as of the date hereof. The delivery of this Information Memorandum at any time does not

imply that the information in it is correct as of any time after the date set out on the cover hereof, or that there has been no change in the operations, financial condition, prospects, creditworthiness, status or affairs of the Company or the Project, or of any other person since that date.

The information contained herein is proprietary to the Company and its shareholders. By accepting delivery of this Information Memorandum and any other information concurrently or separately submitted in conjunction herewith, the recipient agrees not to permit its duplication, dissemination or disclosure, in whole or in part, and, if the recipient is not interested in purchasing the Shares or any portion thereof, the recipient agrees to return the same to the Company.

Unless prior written consent has been obtained from the Company or unless disclosure of specific information is required by law, the recipient agrees not to divulge to any person any information about the Project, the Company or its shareholders or affiliates, or the fact that such information has been made available to the recipient. In no event shall the recipient divulge any such information without giving the Company advance notice and an opportunity to take any action the Company deems reasonable under the circumstances.

Additional information about the contents of this Memorandum may be obtained from the following persons:

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	A. Power Purchase Agreement
	B. Fuel Supply Agreement
	C. EPC Contract
	D. O&M Agreement
	E. Phase I Power Barge Financial Model

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Abbreviations

Enron Engineering & Construction Company EE&CC -Enron Engineering & Construction Company
Enron Nigeria Barge Ltd. or "the Company"
Enron Nigeria Power Holdings Ltd.
Engineering, Procurement and Construction
Fuel Supply Agreement
Independent Power Producer
Lagos State Government of Nigeria
Nigeria Electric Power Authority
Operation and Management
Power Purchase Agreement
Transmission and Distribution Agreement
Y.F. Power ENBL -ENPH -EPC -FSA -IPP · LSG -

NEPA -O&M -PPA -

TDA -

1. EXECUTIVE SUMMARY

1.1 Introduction

Enron, its affiliates and Y.F.Power ("YFP"), an affiliate of Yinka Folawiyo and Sons Ltd. ("Yinka Folawiyo") have nearly completed development of a 3 x 30 MW emergency power barge mounted gas turbine electric power facility (the "Barges") to be located in Ijara, Lagos, Nigeria and are developing a S48MW long term power generation facility, both with electrical capacity and energy sales to the National Electric Power Authority ("NEPA") as directed by the Lagos State Government of Nigeria ("LSG"). Enron affiliate, Enron Nigeria Power Holdings Ltd. ("ENPH") is expected to enter into a Power Purchase Agreement (the "PPA") with NEPA as purchaser, the Federal Republic of Nigeria ("FRN") as guarantor and NEPA as transmission and distribution provider to provide a combination of emergency and long term electrical energy and capacity. In turn, LSG is expected to have first right to direct the transmission and distribution of the power sold under the PPA.

Under the PPA, Phase I covers the thirteen (13) year three (3) month operating period for the Barges and Phase II covers a 20 year operating period for the 548 MW gas fired power plant (the "Power Plant") Phase III covers the thirteen (13) year three (3) month operating period for 180MW of additional barge mounted power generation.

Phase I, Phase II and Phase III of the Project are being developed by Enron affiliates and YFP, an affiliate of Yinka Folawiyo, a Nigerian holding company with interests in shipping, cement, construction, agriculture, fishing, energy and banking. During Phase I of the Project, Yinka Folawiyo is to receive an annual fee for their participation and during Phase II, an equity ownership position.

Enron desires to soll Shares in the Company entitled to distribution of 90% of the net cash flow expected to be generated by the Company over the initial three years of operations of the Barges in the form of preferred and common shares. Enron currently holds 100% of the preferred and common shares of the Company. Finally, an affiliate of Enron is available to provide up to 75% of the purchase price with seller financed debt.

Figure No.1 shows the contractual structure for the Project and the relationship of the various Enron entities involved in the Project as of the date of signing the PPA. Figure No. 2 shows the Preferred Share Structure.

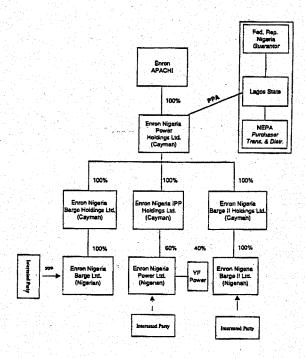
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Figure No. 1

Nigerian Power Barge, Power Plant & Additional Power Ownership Structure

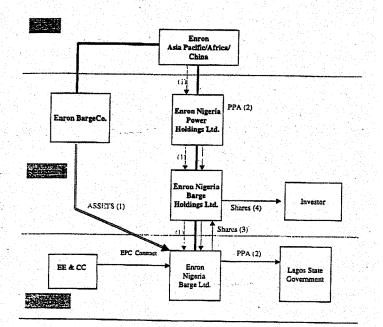


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Figure No. 2 Preferred Share Structure



⁽¹⁾ Assets that perpared to Enron Nigeria florge, Ltd. or har market value. Cash to bratice the purchase spasser flown from Farm Corp. and relayed to briton Hagget;

²⁾ The rights to the PPA (Phase I purpe activities only) are proved down to Euron Nigeria Burge Lid

A Laron Nigeria Barge Ltd. Preferred Stock is issued to Euron Nigeria Barge Holdings Ltd. Preferred A and Common shares are emitted to cash flows from operations based on their county stake.

⁽⁴⁾ Preferred A and Common Shares are sold to the Investor.

1.2 Project Description

1.2.1 Phase I - The Barges

Under the PPA, ENPH will provide power for thirteen (13) years three (3) months from commercial operations of the Barges. The Barges shall be initially fired on No. 2 Diesel Fuel with an expectation to convert them to gas within 15 months of the commercial operations date. First power is expected by the end of February 2000. The pricing for Phase I under the PPA is based on the following:

- 13 years 3 months of capacity and energy with payment in USS
- Capacity Payment of \$20.04 per KW-Month (approx. \$0.029/kWh)
- Fuel Cost will be a pass-through (approx. \$0.056/kWh on No.2 Diesel Fuel), substantially less

LSG will provide to Enron a Standby Letter of Credit ("Standby L/C") in the amount of USS31,000,000. The Standby L/C is expected to be issued by Citibank London. LSG will also establish for Enron an Escrow Account for the term of the project, whereby electricity sales proceeds from a select group of commercial and industrial customers shall be collected and held to ensure payment to ENPH under the terms of the PPA.

ENPH is indirectly 100% owned by Enron Corp., a Delaware corporation. Affiliates of Enron have provided procurement and technical services during the construction of the Barges and will provide technical assistance and operation services for the Barges. A consortium of three local diesel fuel oil suppliers have been contracted to supply the 690 metric tons of fuel per day required by the three Barges. Arrangements to secure gas from existing and planned production is underway.

1.2.2 Phase II - The Power Plant

In addition to the Power Barges, ENPH may provide long term electrical energy and capacity to LSG over a 20 year period. Under the PPA, ENPH expects to finance, build, own, operate and maintain a Power Plant, to be located near Agbara, Lagos State, Nigeria - near the Benin border. The Power Plant is to be owned by Enron Nigeria Power Ltd. which is expected to be 60% owned by Enron Nigeria IPP Holdings Ltd. and 40% by YFP.

In respect of the Power Plant, LSG and the FRN are to provide Enron Nigeria IPP Holdings Ltd. an additional Standby L/C in the amount of US\$76,000,000, as well as, rights to an Escrow Account for the term of the project. First power from the Power Plant is expected by the end of December 2002. The pricing for Phase II of the PPA is based on the following:

- 20 years of capacity and energy with payment in US\$ Capacity Payment of \$20.23 per KW-Month
- Fuel Cost is a pass-through with per kwh price based on delivered gas cost

Whereas the PPA also contemplates the construction of an offshore gas pipeline from the Delta Region of Nigeria to the Power Plant, ENPH is reviewing a number of alternatives including the use of the existing Escravos to Lagos Pipeline.

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1.2.3 Phase III Emergency Power

In addition to the Power Barges, ENPH shall have the option to provide at least 180MW of additional emergency power ("Additional Power") under substantially the same terms as the Power Barge. Enron currently owns an additional 6 power barges of approximately 180 MW. Subject to further due diligence and completion of the terms related to the Additional Power, Enron expects to install such power barges as soon as practicable. The additional power barges may initially use distillate fuel. However, Enron expects to convert such barges to gas as soon as commercially reasonable.

1.3 Project Status

On August 13, 1999, an affiliate of ENPH signed a Memorandum of Understanding ("MOU") with LSG in connection with the Barges and the Power Plant. Under the MOU, Enron was granted a 90 day exclusive negotiation period with LSG, and the PPA was required to be executed within 90 days of LSG issuing a notice to ship order ("NTS") for the Barges.

LSG issued the NTS order on September 6, 1999 and committed to pay transportation charges in the event the PPA is not concluded within the 90 day period. The Barges are presently in Lagos, Nigeria following delivery from Cebu, Philippines.

With respect to the Power Plant, a site has been identified and rights to the site are provided under the PPA. The PPA also grants all permits and approvals for the Barges, the Power Plant and the Pipeline.

Enron has identified a consortium of three local distributors for the fuel supply and is presently negotiating the Fuel Supply Agreement ("FSA") is nearly ready for execution. Discussions with potential gas suppliers is also underway

Outstanding conditions for the projects include finalizing the Standby L/C, the Escrow Account, the FSA and environmental approvals. Additionally, the Power Plant requires securing of third party debt financing for at least 70% of the project.

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1.4 Barge Project Economic Summary

Cost Summary (US\$000)

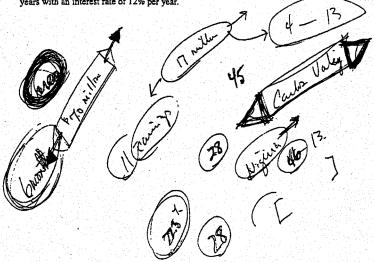
Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working Capital and Spares	2,119
Contingency	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US\$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,213	S13.362	\$13,706	\$3,410	\$39,691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and 90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.



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2. Facilities Description

2.1 The Barges

The project consists of three Power Barges with a combined nominal net output of approximately 90 MW and certain ancillary systems and facilities located on-shore. The Power Barges are moored in Lagos Lagoon in close proximity to the National Electric Power Authority's (NEPA) 132/33/11 kV ljora substation on Iddo Island in Lagos.

Mitsui manufactured the Power Barges, which are not self-propelled. Each Barge has one General Electric (GE) PG6531 gas turbine and an Ahlstrom air to air cooled generator installed on board for the generation of electricity. Control of the gas turbine generator is provided by a GE Mark IV Speedtronic control system located in an in-line control cab onboard the Barge.

Approximately 30 MW of 50 Hz power at 11.5 kV is generated on each Barge by its gas turbine generator operating in open cycle on light distillate fuel. The output of each generator is stepped up to 132 kV through its own 45 MVA transformer at which voltage is evacuated from the Barges, combined with the output of the other Barges, and delivered to NEPA's Ijora substation. These Barges, which were originally designed by GEC Ahlstrom to generate 60 Hz power at 13.8 kV and step up to 69 kV or 138 kV, have been converted to produce 50 Hz power at 11.5 kV.

Each Power Barge has an essentially self-contained power plant. In addition to the gas turbine generator, control system and step-up transformer mentioned above, other electrical equipment on each Barge includes a generator circuit breaker, a unit auxiliary transformer, switch gear and overhead connection to shore. Gas turbine support systems on board each Barge include: a standard type, three stage, non-self-cleaning inlet air filtration system, a diesel engine generator gas turbine starting (including black start) system, oil lubrication and cooling system, exhaust gas stack, fuel storage, treating, handling and forwarding equipment, an off-line water wash system, and CO₂ and sea water fire protection systems.

Each Barge has 2.5 million liters of fuel oil storage capability (approximately 9.5 days supply at a 90%-100%-100%-100% load factor) on board. The Power Barges are refueled by fuel Barges that operate in Lagos harbor. Since none was originally provided, each gas turbine has been modified with a water injection skid for NOx abatement.

The raw water storage and treatment facilities and the de-mineralized water storage and forwarding systems required for gas turbine water injection are located on-shore. Additional on-shore facilities include the electrical dead end structure from which the single circuit 132 kV transmission line to the ligora substation runs, roads, parking facilities, fencing, lighting and buildings for maintenance, warehousing and administrative offices.

Barge dimensions are as follows:

•	Length	46 meters
•	Width	22 meters
•	Depth	4.4 meters
•	Draft (when loaded)	3.5 meters
•	Gross Weight	3,646 tons

These Power Barges are three of the nine that Enron recently acquired from NAPOCOR, an electric utility company in the Philippines. NAPOCOR employed the Barges in peaking service since about the 1990 time frame. Since acquiring them, Enron has refurbished both the gas turbines and the Barge hulls to address areas requiring attention as identified by the inspection that Enron conducted prior to the acquisition.

The actual fired hours, equivalent operating hours, starts, and fired hours since last overhaul of each of these gas turbines are as follows:

Barge <u>Number</u>	Actual Fired Hours	Equivalent Op Hours	<u>Starts</u>	Fired Hours Since Last Overhaul
207	31,800	47,692	2,465	11,800
208	23,300	34,866	1,705	3,800
209	27,500	41,223	1,945	10,625

2.1.1 The Barges Site

As mentioned above, the three Power Barges are to be moored in Lagos Lagoon adjacent to the south side of NEPA's Ijora substation on Iddo Island in Lagos. The on-shore facilities are located on property to be leased by the Company adjacent to the barge jetty and the Ijora substation.

2.1.2 Fuel Supply

A consortium of three local diesel fuel oil suppliers are expected to supply the 690 metric tons of fuel per day required by the 3 x 30 MW Power Barges under a three year FSA. Each barge has 2,100 mt of fuel storage capacity on board. The consortium has local storage of approximately 45,000 mt of fuel, 30,000 mt, which will be dedicated to the Barges. Every third day, a fuel barge will re-supply the Power Barges with 2,000 mt, topping them off. Two of the local suppliers receive their fuel from local refineries and the third has a contract with a Dutch company, Chimimex, which has an arrangement with a Balkan refinery. Two of the three have extensive operations in the Lagos area, owning and operating transport vessels and refueling Barges. All three suppliers have extensive contracts and operations in place with most of the major oil companies in Nigeria (Chevron, Shell, Total, Elf, ctc). Specific logistics and the interaction between the three suppliers are being finalized.

Enron shall use commercially reasonable efforts to convert the Barges, including the Additional Power, to gas as soon as practicable. The target conversion date is fifteen months after commercial operations of the Barges. Enron is currently conducting due diligence as to the appropriate site for gas based generation for the barges as well as the most appropriate source of gas supply and transportation.

2.1.3 Engineering, Procurement and Construction

Enron Engineering & Construction Company ("EE&CC") has been engaged by the Company to perform the turnkey engineering, procurement and construction ("EPC") for the Project. In its capacity as turnkey EPC Contractor. EE&CC will have total responsibility managing the project and for

providing a completely operational power facility. EPC for the project includes development engineering, detailed engineering and construction management.

Development engineering consisted of developing preliminary design specifications, geotechnical analysis, environmental considerations, design schematics, right of ways, project cost estimates, schedules, quality assurance and the process control plan.

The detailed design work consisted of developing detailed engineering and design, bid and construction drawings, bid specifications, material procurement, job books, expediting, shop inspection, project management, cost control, permits and other detailed activities.

The construction management effort consists of field inspection, mechanical completion, commissioning, start-up, facility turnover, completion of as-built drawings, final project documentation, and post completion review.

2.1.4 Operations and Maintenance

Figure No. 3 outlines the operations and maintenance and administrative services arrangements for the Project.

Operational Energy Corp. ("OEC"), a subsidiary of Enron Corp., will provide technical, operations and maintenance services to the Company in exchange for a fee under the Operations and Maintenance Agreement (the "O&M Agreement"). The O&M Agreement allows for adjustments to the OEC fee, should the plant operate below agreed performance levels. OEC will be responsible for providing a budget and maintenance schedule for the Company's approval on an annual basis as well as meeting the operating requirements stipulated in the PPA.

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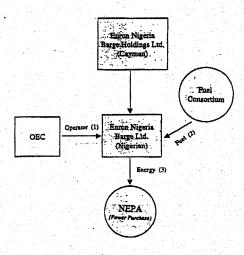
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Figure No. 3

Operations and Maintenance Diagram

Phase I - Barges Project



- (1) Operations and Maintanance Agreement (2) Fuel Supply and Management Agreement (3) Power Puzchase Agreement

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2.2 Additional Emergency Power

In addition to the Power Barges, ENPH shall have the option to provide at least 180MW of additional emergency power ("Additional Power") under substantially the same terms of the PPA. Enron currently owns an additional 6 power barges of approximately 180 MW. Subject to further due diligence and completion of the terms related to the Additional Power Enron expects to install such power barges as soon as practicable. The additional power barges will initially use distillate fuel. However, Enron expects to convert such barges to gas as soon as commercially reasonable.

2.3 The Power Plant

The Power Plant is expected to consist of five General Electric PG9171E combustion turbine generators ("CTGs") (or similar technology from another vendor) operating in open cycle. It will have a nominal, net new and clean output of approximately 548,000 kW (approximately 110 MW per turbine) at the site average ambient (design) conditions of 27.2° C (81°F), 82.5% relative humidity, and an atmospheric pressure of 14.696 psia. The CTGs are to be configured to burn natural gas using Dry Low NO_x ("DLN") combustors to reduce NO_x pollutant discharge at the stack to 25 ppm.

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3. CONTRACTUAL ARRANGEMENTS

Figure No. 1 outlines the contract structure for the Barges. The following summaries provide additional information on the contracts. The actual contracts are provided in the Appendices.

3.1 Power Purchase Agreement

The PPA is to be entered into by and between ENPH and LSG, NEPA and the FRN and covers the sale and purchase of 90MW of capacity and energy from the Barges over a thirteen year three month term (Phase I) and the subsequent sale and purchase of 548MW of capacity and energy from the Power Plant over a 20 year period (Phase II), ENPH is expected to assign its Phase I PPA rights and obligations to the Company and its Phase II PPA rights and obligations to Enron Nigeria Power Ltd.

LSG is the power purchaser and is responsible for making the capacity and energy payments under the PPA. NEPA is responsible for transmission and distribution of the power to end users and the FRN guarantees the obligations of LSG and NEPA. However, it is anticipated that the LSG rights and obligations as purchaser under the PPA will be assigned to NEPA, resulting in NEPA serving as purchaser and the party responsible for transmission and distribution.

Several noteworthy aspects of the PPA are further addressed below. The full PPA is provided as an appendix.

3.1.1 Letter of Credit

The letter of credit is to be a standby letter of credit (the "Standby L/C") issued by a minimum A-rated offshore financial institution. Citibank London is expected to be the offshore Standby L/C bank. ENPH will be entitled to draw upon the Standby L/C in the event that LSG, NEPA or the FRN fail tomeet their obligations under the PPA, particularly their payment obligations. The Standby L/C will be \$31 million – equal to approximately six months worth of projected revenues for the Barges and \$76 million for the Power Plant. If at any time the Standby L/C is drawn upon, it must be immediately replenished to the initial amount. The Standby L/C is revolving, meaning it must always be in place, and replenished if drawn.

Figure No. 4 provides a summary of the Standby L/C and Escrow Account Structure.

3.1.2 Escrow Account

Under the terms of the PPA, NEPA and LSG are required to establish an escrow account into which revenues from electricity sales to a select group of industrial and commercial customers will be paid. During Phase I, the minimum balance in the Escrow Account is to be \$7.5 million and \$18.0 million in Phase II. Escrow funds above the minimum level are subject to periodic release after the Company (or in the case of the Power Plant, Enron Nigeria Power Ltd.) is paid for the electrical capacity and energy. In the event electrical capacity and energy payments are not paid as agreed, the funds in the escrow account may be released to the Company (and to Enron Nigeria Power Ltd. in the case of the Power Plant).

Figure No. 4 provides a summary of the Standby L/C and Escrow Account Structure.

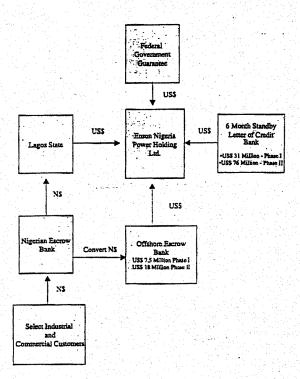
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Figure No. 4

Escrow Account & Letter of Credit Structure



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3.2 Fuel Supply Contract

The FSA is expected to be entered into with a consortium of three local fuel suppliers. The fuel will be required to meet designated quality standards and will be tested regularly. The fuel supplier will be required to provide a performance letter of credit of S3 million issued by an A-rated financial institution that can be drawn upon by the Company in the event of fuel supplier non performance.

Under the PPA, the cost of fuel is a past through to the electricity purchaser. Within 15 months of the commercial operations date, the Company shall have converted the Barges to gas fuel and commercial operations on gas. Otherwise the Company shall have the right to invoke the buyout provisions under the PPA. In any event, the Company has commercial discussions with potential gas suppliers and early indications are that the 15 month schedule to conversion is achievable.

The FSA is provided as an appendix.

3.3 Engineering Procurement and Construction

EE&CC is the EPC Contractor. A lump sum, turnkey EPC Agreement is expected to be executed between the Company and EE&CC. All project EPC activities performed by EE&CC or its subcontractors are to be performed by qualified companies and individuals experienced in the required work. The contracts shall be in writing and approved in accordance with EE&CC requirements. EE&CC will identify the required contract activities, determine responsibility and assure bid and approval requirements are met.

The EPC Agreement provides guarantees, on EE&CC's part, for first power from the first barge and for project completion. Commensurate Liquidated Damages (LDs) associated with not meeting these guaranteed first power and project completion dates, due strictly to the fault of EE&CC, are also provided for in the Agreement.

Inasmuch as the project is employing "used" equipment, the EPC Agreement does not provide for either performance or availability guarantees or LDs associated with such guarantees.

3.4 Operations and Maintenance

OEC is the O&M Contractor for the Project, and is expected to provide the expertise and management resources necessary to ensure that the operations and maintenance activities are carried out in accordance with the Company's objective of obtaining maximum availability with minimal capital expenditures during the three year term of the O&M Agreement. For this purpose, the O&M activities will be carried out on a "conditions based maintenance" basis. Barge operations and maintenance staff will be employed by OEC, or its designee, and shall have the authority to plan and direct the activities required to execute OEC's responsibilities under the O&M Agreement.

The O&M Agreement is provided as an appendix.

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4. PROJECT ECONOMICS

4.1 Assumptions

The economic assumptions are provided in the Financial Model.

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Nigeria Barge Project Sell Down Transaction and Shareholder Structure

17 December 1999

The following transaction structure has been developed to allow the Purchaser to purchase 90% of the projected after tax cash flow to be generated over three (3) years by the 90 MW Nigeria Barge Project (the "Barge Project") while 1) funding the purchase price with 25% equity and 75% seller financed debt, 2) basing the purchase price on the net present value of such cash flow and providing a projected yield to purchaser of approximately 25% on invested equity and 3) allowing Enron to book a gain based on the sale of such cash flows.

Following extensive review and discussion with Enron accounting staff and outside auditors, the following structure has been developed and approved to ensure the desired accounting treatment for the transaction. Whereas the structure is more complex than desired and originally envisaged, it is necessary to meet all of the objectives for the transaction.

A Few Definitions

Cash Flow: The operating distributable cash flow generated by the Barge Project from all revenues less all expenditures including but not limited to operating and administrative costs, fuel, all taxes and debt service; and as further delineated in the Financial Model.

Cumulative Cash Flow: The aggregate monthly cumulative Cash Flow commencing on the commercial operations of the Barge Project and ending on the Trigger Date (as defined below).

Early Liquidation: The termination of the Power Purchase Agreement or the otherwise winding up of Enron Nigeria Barge Ltd. prior to the Trigger Date.

Liquidation Proceeds: The cash proceeds from the Early Liquidation of the Barge Project excluding proceeds (if any) from the sale or disposition of the barges.

Trigger Cash Flow: The projected Cash Flow (approximately \$44.1 million) to be generated by the Barge Project during its first 3 years of operations.

Trigger Date: The date upon which the Cumulative Cash Flow equals the Trigger Cash Flow.

Transaction Structure

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project

Shareholder Structure

There will be three classes of stock, two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common Shares. Enron will own the Preferred B shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow nights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

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Economic Interest (Percent of Cash Flow ("CF"))

 Stock Class
 Pre Trigger Date
 Post Trigger Date

 Preferred A (Purchaser)
 0.1% of CF
 0.1% of CF

Preferred B (Enron)
9.9% of CF After Pref A
99.0% of CF After Pref A
Common Stock (Purchaser)
100.00% of CF After Pref A & B
100.00% of CF After Pref A & B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Early Liquidation

In the event of an Early Liquidation, the Purchaser shall receive via the Preferred A Shares an amount stipulated in an appendix to be attached to the Share Purchase Agreement. Generally, the Early Liquidation proceeds payable to Purchaser via the Preferred A Shares and included in the appendix shall be designed to ensure the Purchaser a 25% internal rate of return on invested equity. Upon an Early Liquidation, The Preferred B Shares shall then receive 99.0% of the remaining Liquidation Proceeds after the liquidation payment to the Preferred A shares and all Phase I Facilities (as defined in the Power Purchase Agreement). The Common shares shall receive 100.00% of the remaining Liquidation Proceeds after the payments to the Preferred A and Preferred B Shares.

Return Considerations

If the Cumulative Cash Flow equals the Trigger Cash Flow at the end of 3 years of operations, the return to the Purchaser would be approximately 25%.

If the Cumulative Cash Flow equals the Trigger Cash Flow before the end of 3 years, then the return to the Purchaser would exceed 25%. If the Trigger Cash Flow level is reached after the end of 3 years, the Purchaser's return may be below 25%. It is intended for the Purchaser to take this risk and upside opportunity.

If there is an early liquidation, and there are sufficient liquidation proceeds (which the letter of credit shall ensure) the liquidation payment schedule is designed to ensure the Purchaser an approximate 25% return on invested equity.

Voting Rights

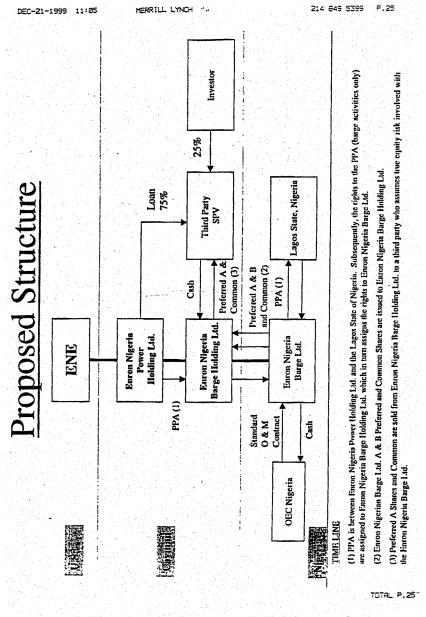
Each share class shall have the following number of shareholder votes and shall also appoint the same number of directors to the Board of Directors. This structure is necessary to ensure conformity to Nigerian law.

 Share Class
 Votes
 Directors

 Preferred A
 1
 1

 Preferred B
 8
 8

 Common
 1
 1



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LIMITED LIABILITY COMPANY AGREEMENT

OF

EBARGE, LLC

This Limited Liability Company Agreement (this "Agreement") of Ebarge, LLC, dated and effective as of December 29, 1999, is entered into by ML IBK Positions, Inc., as the sole member (the "Member").

The Member has formed a limited liability company pursuant to and in accordance with the Delaware Limited Liability Company Act (6 <u>Del.C.</u> § 18-101, <u>et seq.</u>), as amended from time to time (the "Act"), and hereby agrees as follows:

- 1. Name. The name of the limited liability company formed is Ebarge, LLC (the "Company").
- 2. <u>Certificates</u>. The Member and William R. Fuhs are authorized persons within the meaning of the Act. The Member and William R. Fuhs are hereby authorized to execute, deliver and file any other certificates (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.
- 3. Purposes. The Company has been formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Act.
- 4. Powers. In furtherance of its purposes, but subject to all of the provisions of this Agreement, the Company shall have the power and is hereby authorized to:
- (a) Acquire by purchase, lease, contribution of property or otherwise, own, hold, sell, convey, transfer or dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;
- (b) Act as a trustee, executor, nominee, bailee, director, officer, agent or in some other fiduciary capacity for any person or entity and to exercise all of the powers, duties, rights and responsibilities associated therewith;
- (c) Take any and all actions necessary, convenient or appropriate as trustee, executor, nominee, bailee, director, officer, agent or other fiduciary, including the granting or approval of waivers, consents or amendments of rights or powers relating thereto and the execution of appropriate documents to evidence such waivers, consents or amendments;
- (d) Operate, purchase, maintain, finance, improve, own, sell, convey, assign, mortgage, lease or demolish or otherwise dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;

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- (e) Borrow money and issue evidences of indebtedness in furtherance of any or all of the purposes of the Company, and secure the same by mortgage, pledge or other lien on the assets of the Company;
- (f) Invest any funds of the Company pending distribution or payment of the same pursuant to the provisions of this Agreement;
- (g) Prepay, in whole or in part, refinance, recast, increase, modify or extend any indebtedness of the Company and, in connection therewith, execute any extensions, renewals or modifications of any mortgage or security agreement securing such indebtedness;
- (h) Enter into, perform and carry out contracts of any kind, including, without limitation, contracts with any person or entity affiliated with the Member, necessary to, in connection with, convenient to, or incidental to the accomplishment of the purposes of the Company;
- (i) Employ or otherwise engage employees, managers, contractors, advisors, attorneys and consultants and pay reasonable compensation for such services;
- (j) Enter into partnerships, limited liability companies, trusts, associations, corporations or other ventures with other persons or entities in furtherance of the purposes of the Company;
- (k) To enter into, execute and deliver, without any further act, approval or vote of the Member, notwithstanding any of the provisions of this Agreement, the Act or any applicable law, rule or regulation, including, without limitation:
 - The Share Purchase Agreement, dated December 29, 1999, between the Company and Enron Nigeria Barge Holding Ltd.;
 - (ii) The Pledge Agreement, dated December 29, 1999, between the Company and Enron Nigeria Power Holding Ltd.;
 - (iii) Loan Agreement, dated Decmber 29, 1999, between the Company and Enron Nigeria Power Holding Ltd.;
 - (iv) The Shareholders' Agreement, dated December 29, 1999, between the Company, Enron Nigeria Barge Holding Ltd. and Enron Nigeria Barge Ltd.;
 - (v) The Tax Indemnity Letter, dated December 29, 1999, from the Company to Enron Nigeria Power Holding, Ltd., Enron Nigeria Barge Ltd. and Enron Nigeria Barge Holding Ltd.;
 - (vi) The Stock Power form pertaining to 999 Ordinary Shares;
 - (vii) The Stock Power form pertaining to 1 Ordinary Share; and

(viii) The Stock Power form pertaining to 1,000 Preferred A Shares.

do such other things and engage in such other activities related to the foregoing as may be necessary, convenient or incidental to the conduct of the business of the Company, and have and exercise all of the powers and rights conferred upon limited liability companies formed pursuant to the Act.

- Principal Business Office. The principal business office of the Company shall be located at World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281.
- 6. Registered Office. The address of the registered office of the Company in the State of Delaware is c/o The Corporation Service Company, 1013 Centre Road, Wilmington, Delaware 19805.
- Registered Agent. The name and address of the registered agent of the Company for service of process on the Company in the State of Delaware are The Corporation Service Company, 1013 Centre Road, Wilmington, New Castle County, Delaware 19805.
 - 8. Members. The name and the mailing address of the Member are as follows:

Name Address

ML IBK Positions, Inc. World Financial Center
North Tower
250 Vesey Street
New York, New York 10281

- 9. Limited Liability. Except as otherwise provided by the Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and the Member shall not be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a member of the Company.
- 10. Capital Contributions. The Member is deemed admitted as the Member of the Company upon its execution and delivery of this Agreement. The Member has contributed \$7,000,000.00 in cash, and no other property, to the Company.
- Additional Contributions. The Member is not required to make any additional capital contribution to the Company. However, the Member may at any time make additional capital contributions to the Company.
- 12. <u>Allocation of Profits and Losses</u>. The Company's profits and losses shall be allocated solely to the Member.
- 13. <u>Distributions</u>. Distributions shall be made to the Member at the times and in the aggregate amounts determined by the Member. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make a distribution to the Member on

account of his interest in the Company if such distribution would violate Section 18-607 of the Act or other applicable law.

- 14. Management. In accordance with Section 18-402 of the Act, management of the Company shall be vested in the Member. The Member shall have the power to do any and all acts necessary, convenient or incidental to or for the furtherance of the purposes described herein, including all powers, statutory or otherwise, possessed by members of a limited liability company under the laws of the State of Delaware. The Member has the authority to bind the Company.
- 15. Officers. The Member may, from time to time as it deems advisable, select natural persons who are employees or agents of the Company and designate them as officers of the Company (the "Officers") and assign titles (including without limitation, President, Vice President, Secretary, and Treasurer) to any such person. Unless the Member decides otherwise, if the title is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law, the assignment of such title shall constitute the delegation to such person of the authorities and duties that are normally associated with that office. Any delegation pursuant to this Section 15 may be revoked at any time by the Member. An Officer may be removed with or without cause by the Member. The Member hereby appoints the following officers to manage the affairs of the Company:

<u>Name</u>	Office
James A. Brown	Chairman of the Board and President
Joseph S. Valenti	Vice President - Finance and Treasurer
Gerard Haugh	Vice President and Secretary
Kira J. Toone	Vice President, Assistant Secretary and Assistant Treasurer
Frank J. Conley	Vice President and Assistant Secretary
William R. Fuhs	Vice President and Assistant Secretary

- 16. Other Business. The Member may engage in or possess an interest in other business ventures of every kind and description, independently or with others. The Company shall not have any rights in or to such independent ventures or the income or profits therefrom by virtue of this Agreement.
- 17. Exculpation and Indemnification. No Member or Officer shall be liable to the Company or any other person or entity who has an interest in the Company for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Member or Officer in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Member or Officer by this Agreement, except that a Member or Officer shall be liable for any such loss, damage or claim incurred by reason of such Member's or Officer's willful misconduct. To the full extent permitted by applicable law, a Member or Officer shall be entitled to indemnification from the Company for any loss, damage or claim incurred by such Member or Officer by reason of any act or omission performed or

omitted by such Member or Officer in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Member or Officer by this Agreement, except that no Member or Officer shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Member or Officer by reason of willful misconduct with respect to such acts or omissions; provided, however, that any indemnity under this Section 17 shall be provided out of and to the extent of Company assets only, and the Member shall not have personal liability on account thereof.

- 18. <u>Assignments</u>. The Member may at any time assign in whole or in part its limited liability company interest in the Company. If the Member transfers all of its interest in the Company pursuant to this Section 18, the transferee shall be admitted to the Company upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement. Such admission shall be deemed effective immediately prior to the transfer, and, immediately following such admission, the transferor Member shall cease to be a member of the Company.
- 19. Resignation. The Member may at any time resign from the Company. If the Member resigns pursuant to this Section 19, an additional member shall be admitted to the Company, subject to Section 20 hereof, upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement. Such admission shall be deemed effective immediately prior to the resignation, and, immediately following such admission, the resigning Member shall cease to be a member of the Company.
- Admission of Additional Members. One or more additional members of the Company may be admitted to the Company with the written consent of the Member.

Dissolution.

- (a) The Company shall dissolve and its affairs shall be wound up upon the first to occur of the following: (i) the written consent of the Member, (ii) at any time there are no members of the Company unless, within 90 days of the occurrence of the event that terminated the continued membership of the last remaining member of the Company (the "Termination Event"), the personal representative of the last remaining member agrees in writing to continue the Company and to the admission to the Company of such personal representative or its nominee or designee as a Member, effective as of the occurrence of the Termination Event, and such successor or its nominee or designee shall be admitted upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement, or (iii) the entry of a decree of judicial dissolution under Section 18-802 of the Act.
- (b) The bankruptcy of the Member shall not cause the Member to cease to be a member of the Company and upon the occurrence of such an event, the business of the Company shall continue without dissolution.
- (c) In the event of dissolution, the Company shall conduct only such activities as are necessary to wind up its affairs (including the sale of the assets of the Company in an orderly manner), and the assets of the Company shall be applied in the manner, and in the order of priority, set forth in Section 18-804 of the Act.

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- 22. <u>Separability of Provisions</u>. Each provision of this Agreement shall be considered separable, and if for any reason any provision or provisions herein are determined to be invalid, unenforceable or illegal under any existing or future law, such invalidity, unenforceability or illegality shall not impair the operation of or affect those portions of this Agreement that are valid, enforceable and legal.
- 23. Entire Agreement. This Agreement constitutes the entire agreement of the Member with respect to the subject matter hereof.
- 24. Governing Law. This Agreement shall be governed by, and construed under, the laws of the State of Delaware (without regard to conflict of laws principles), all rights and remedies being governed by said laws.
- 25. Amendments. This Agreement may not be modified, altered, supplemented or amended except pursuant to a written agreement executed and delivered by the Member.
- 26. Sole Benefit of Member. Except as expressly provided in Section 17, the provisions of this Agreement (including Section 11) are intended solely to benefit the Member and, to the fullest extent permitted by applicable law, shall not be construed as conferring any benefit upon any creditor of the Company (and no such creditor shall be a third-party beneficiary of this Agreement), and no Member shall have any duty or obligation to any creditor of the Company to make any contributions or payments to the Company.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby has duly executed this Agreement as of the date first written above.

ML IBK Positions, Inc.

Mane: Joseph S. Valen

SHARE TRANSFER FORM

Number or Amount of Shares Number or Amount of Shares and in figures column only, number and denomination of units [if any] Name[s] of Registered holder[s] In the name[s] of ENRON KICERIA BARGE BOLDING LIMITED BUNILAW BUILDING, FORT A CEORGITOWN, GRAND CAYMAN, CAYMAN ISL CORGITOWN, GRAND CAYMAN, CAYMAN ISL CEORGITOWN, CEORGITOWN, CEORGITOWN, CEORGITOWN, CEORGITOWN, CEORGITOWN, CEORGITOWN, CEORGITOWN, CEORGITOWN,	Consideration Money N		Certificate L with the Reg per completion by	gistrar
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Signature of the Transferor: Date: 12/30/99 Director, James V. Dyrrick, Jr. Date: 12/30/99	should be given in full. Th	e address	ENRON NIGERI BUNTLAW BUIL	A BARGE BOLDING LIMITED DING, FORT A
C/O ML LEASING EQUIPMENT CORP; 250 VESSEY ST; NEW YORK, NY 10281 U. S. A. JULIAN J. SUPERIOR Defore me this 30th day of Pecepoar 1995. JULIAN J. SUPERIOR DEFORE ME THIS 30th day of Pecepoar 1995.	person[s] named below:			
C/O ML LEASING EQUIPMENT CORP; 250 VESSEY ST; NEW YORK, NY 10281 U. S. A. JULIAN J. SUPERIOR Defore me this 30th day of Pecepoar 1995. JULIAN J. SUPERIOR DEFORE ME THIS 30th day of Pecepoar 1995.	S Director, James y.	Ignature of the	he Transferor: Date:	12/30/99
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Permanent Subcommittee on Investigations
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SHARE TRANSFER FORM

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Signature Signature Director, James V. Derrick Assistant Secrety Tanya R. Sanfor ull name[s], full postal address[es including state of the person to whom the security is transferred	of the Transferon Date: 12 Date: 12 Date: 12 FEARCE, ILC C/O M. LE-SJ , 250 VESST 1 NEW YORK, M. U.S	/30/99 /30/99	CORP;

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SHARE TRANSFER FORM

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Name of XXX ESTATES CONTAINS	ENION RIGERIA BARGI LIMITED
Description of Shares	PREFERRED 'A'. SHARESTOF MI,000 EACH
Number or Amount of Shares and in figures column only, number and denomination of units [if any] WORDS WORDS ONE TROUSAND SHARE	FIGURES PRETERRED 'A' 1,000 PRETERRED 'A' SHARES
Name[s] of Registered holder[s] should be given in full. The address should be given where there is only one holder	In the name(s) of ENDOW NIGERIA BARGE BOLDING LIMITED BUNTLAW BUILDING CEORGETOWN, GRAND CATHAN, CATHAN ISLANDS
We hereby transfer the above security person[s] named below:	out of the name aforesaid to the
Signature of t	he Transferor:
1. Dollare V. Derryck, Jr. 2. Serifant Secrepary, lanya k. Sanioral	Date: 12/30/99 EE
Full name[s], full postal address[es] including state of the person to whom the security is transferred	TRANCE, THE COOM, LEASING EQUIPMENT CORP; 250 VELSEY ST; NEW YOLD, V [028] P. S. A.
Sworn to and subscribed bot of the grant of the control of the con	
36 199 09157	merg. (4

EXECUTION COPY

Dated 29 December 1999

ENRON NIGERIA POWER HOLDING, LTD. (as Lender)

and

EBARGE, LLC (as Borrower)

LOAN AGREEMENT

Permanent Subcommittee on Investigations EXHIBIT #216a.

THIS LOAN AGREEMENT (this "Agreement") is made on 29 December 1999

BETWEEN:

- (1) ENRON NIGERIA POWER HOLDING, LTD., a company registered in the Cayman Islands with its registered office at the Huntlaw Building, Fort Street, George Town, Grand Cayman, Cayman Islands (together with its successors and permitted assigns, the "Lender"); and
- (2) EBARGE, LLC, a limited liability company registered in Delaware, with its registered office at c/o ML Leasing Equipment Corp., 250 Vesey Street, New York, New York 10281 (together with its successors and permitted assigns, the "Borrower").

WHEREAS, the Lender has agreed to lend and the Borrower has agreed to borrow and repay the Lender a fixed interest rate US Dollar term loan in each case on the terms and subject to the conditions of this Agreement,

IT IS AGREED as follows:

- 1. INTERPRETATION
- 1.1 Definitions

In this Agreement:

"Acquisition" means the acquisition by the Borrower from the Seller of the Shares.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are open for business in New York City.

"Default" means an Event of Default or an event which, with the giving of notice, expiry of any applicable grace period or determination of materiality by the Lender specified (in any such case) in Clause 13 (Default) (or any combination of the foregoing), would constitute an Event of Default.

"Dollars", "US Dollars", "US\$" or "\$" means the lawful currency for the time being of the United States of America.

"ENBL" means Enron Nigeria Barge Limited, a company organised under the laws of the Republic of Nigeria.

"Event of Default" means an event specified as such in Clause 13.1 (Events of Default).

"Finance Document" means:

- (a) this Agreement; or
- (b) the Pledge Agreement.

"Financial Indebtedness"

means (without double counting) any indebtedness in respect of:

- (a) moneys borrowed;
- (b) any debenture, bond, note, loan stock or other security;
- (c) any acceptance credit;
- (d) receivables sold or discounted (otherwise than on a non-recourse basis);
- (e) the acquisition cost of any asset to the extent payable before or more than 180 days after the time of acquisition or possession by the party liable where the advance or deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (f) any lease entered into primarily as a method of raising finance or financing the acquisition of the asset leased;
- (g) any currency swap or interest swap, cap or collar arrangement or any other derivative instrument;
- any amount raised under any other transaction having the commercial effect of a borrowing or raising of money; or
- any guarantee, indemnity or similar assurance against financial loss of any person.

"Full Repayment Date" means 31 December 2002.

"Interest Period" has the meaning specified in Clause 6.1.

"Loan" means the loan made or to be made by the Lender to the Borrower pursuant to clause 2.1(a) of this Agreement or the principal amount outstanding of that loan from time to time.

"Material Adverse Effect" means any event, occurrence or circumstance having, or being reasonably likely to have, a material adverse effect on the ability of the Borrower to perform and comply with its payment obligations hereunder.

"Material Agreement" means the Share Purchase Agreement and/or the Shareholders Agreement.

"Maximum Rate" means, on any day, the highest rate of interest on the Loan permitted by applicable law (if any) on such day.

"Party" means a party to this Agreement.

"Permitted Transaction" means:

 a reconstruction, amalgamation, reorganisation, merger or consolidation of the Borrower on terms approved by the Lender; or (b) a disposal of assets permitted by the terms of this Agreement.

"Pledge Agreement" means the Pledge Agreement dated the date hereof between the Borrower and the Lender in relation to the Shares.

"Power Purchase Agreement" means the power purchase agreement dated 6th December 1999 by and among Enron Nigeria Power Holdings Limited and the other entities named therein.

"Repayment Date" means the last Business Day of each Interest Period.

"Security Interest" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security.

"Seller" means Enron Nigeria Barge Holdings Limited, a company organised under the laws of the Cayman Islands.

"Share Purchase Agreement" means the share purchase agreement dated 29 December 1999 between the Seller and the Borrower in relation to the Shares.

"Shareholders Agreement" means the shareholders agreement dated 29 December 1999 between the Seller and the Borrower in relation to ENBL.

"Shares" means 1000 preferred A shares and 1000 ordinary shares of ENBL.

"United States" and "U.S." mean the United States of America.

- 1.2 Construction
- (a) In this Agreement, unless the contrary intention appears, a reference to:

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- "assets" includes real, personal, tangible and intangible properties, revenues and rights of every description;
 - an "authorisation" includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration and notarisation;
 - a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:
 - if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that calendar month; or
 - (2) if an Interest Period commences on the last Business Day of a calendar month, that Interest Period shall end on the last Business Day in the calendar month in which it is to end; and

- a "person" shall be construed as a reference to any person, firm, company, corporation, limited liability company, government, state, agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;
- a "regulation" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law, but if not having the force of law being of a type with which the person concerned is accustomed to comply) of any governmental body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (ii) a provision of a law is a reference to that provision as amended or re-enacted;
- (iii) a Clause or a Schedule is a reference to a clause of or a schedule to this Agreement:
- (iv) a person includes such person's successors and permitted transferees, novatees, and assigns;
- (v) a contract or other document is a reference to that contract or other document as amended, novated, supplemented, restated, replaced or renewed; and
- (vi) a time of day is a reference to New York time.

Unless the contrary intention appears, a term used in any notice given under or in connection with this Agreement has the same meaning in that notice as in this Agreement.

The table of contents to and the headings in this Agreement are for convenience only and are to be ignored in construing this Agreement.

Unless the context otherwise requires and otherwise defined herein, words and expressions defined in the Share Purchase Agreement and the Power Purchase Agreement shall have the same meanings when used in this Agreement.

THE FACILITY

Loan

Subject to the terms of this Agreement, the Lender shall on the date hereof make to the Borrower a Loan in an amount equal to USS21,000,000.

No more than one Loan shall be made.

Conditions Precedent

e obligations of the Lender to the Borrower under this Agreement are subject to the following aditions precedent:

execution of the Pledge Agreement; and

(b) satisfaction of all conditions precedent under the Share Purchase Agreement and Shareholders Agreement (other than any condition relating to the satisfaction of conditions precedent under this Agreement).

2.3 Disbursement

Subject to the terms hereof, the Lender shall disburse the Loan to the Borrower on the date hereof in such manner as shall be agreed by the Lender and the Borrower, including, without limitation, the transfer of funds into a bank account of the Borrower or another person specified by the Borrower.

3. APPLICATION OF PROCEEDS

- (a) The Borrower shall apply the Loan made to it for the purposes of financing the cost of the Acquisition.
- (b) Without affecting the obligations of the Borrower in any way, the Lender is not bound to verify the application of the Loan.

4. REPAYMENT

On each Repayment Date the Borrower shall repay the Loan in the amount of US\$773,010.33, or such lesser amount as shall have been received by the Borrower for such repayment period from ENBL. The Borrower shall repay the remainder of the Loan in full on the Full Repayment Date.

5. PREPAYMENT AND CANCELLATION

5.1 Voluntary prepayment

The Borrower may at any time, by giving not less than 3 Business Days' prior notice to the Lender, prepay the Loan, in whole or in part, together with all accrued and unpaid interest hereunder, then due and payable.

5.2 Mandatory prepayment

The Borrower shall prepay the Loan, together with all other amounts payable by the Borrower under this Agreement upon the happening of the earlier of the following events:

- (a) liquidation of ENBL; or
- (b) the receipt by the Borrower of distributions from ENBL following any buy-out of the Phase I Facilities pursuant to clause 18 of the Power Purchase Agreement.
- 5.3 Miscellaneous provisions
- (a) All prepayments under this Agreement shall be made together with accrued interest on the amount prepaid.

- (b) No prepayment is permitted except in accordance with the express terms of this Agreement.
- (c) No amount prepaid may subsequently be re-borrowed.
- INTEREST PERIODS

6.1 Interest periods

The Loan will have successive interest periods as specified in this Clause 6.1 (each an "Interest Period"). The first Interest Period shall commence on the date hereof and will end on 30 April 2000. Subsequent Interest Periods will commence on the expiry of the preceding Interest Period and shall have a length of 1 month.

6.2 Overrunning of repayment dates

If an Interest Period would otherwise overrun the date when all the outstanding principal amount of the Loan has been repaid or, without limitation, prepaid, that Interest Period shall be shortened so that it ends on such date.

7. INTEREST

- 7.1 Interest rate
- (a) The rate of interest on the Loan for each of its Interest Periods is 12 percent per annum.
- (b) Interest shall not be compounded.
- (c) Interest shall be calculated based on a 365-day year and the actual number of days elapsed.
- 7.2 Due dates
- (a) Except as otherwise provided in paragraph (b) below or elsewhere in this Agreement, accrued interest on the Loan is payable by the Borrower on the last day of each Interest
- (b) Subject to the provisions of Clause 7.3 (Default interest), the last payment of accrued interest on the Loan shall be made by the Borrower on the last day of the last Interest Period or on the date of a mandatory prepayment or acceleration pursuant to Clause 5.2 (Mandatory prepayment) or Clause 13.14 (Acceleration).

7.3 Default interest

If the Borrower fails to pay all amounts payable by it under this Agreement on the Repayment Date, it shall forthwith on demand by the Lender pay interest on the overdue amount from the due date up to the date of actual payment, as well after as before judgment, at two percent (2%) per annum in excess of the rate specified in Clause 7.1 (Interest rate).

7.4 Maximum rate

Notwithstanding any provision contained herein or in any document related hereto, the Lender shall in no circumstance be entitled to receive, collect or apply as interest on the Loan any amount in excess of the Maximum Rate. If the Lender ever receives, collects or applies as interest any such excess, the amount that would be excessive interest hereunder shall be deemed to be a partial prepayment of principal on the Loan and treated hereunder as such. In determining whether or not interest paid or payable exceeds the Maximum Rate, the Borrower and the Lender shall, to the maximum extent permitted under applicable law, amonize, prorate, allocate and spread, in equal parts, the total amount of interest throughout the entire contemplated term of the Loan so that the interest rate is uniform throughout the entire term and the rate or amount of interest on account of the Loan does not exceed the Maximum Rate.

8. PAYMENTS

8.1 Place

All payments by the Borrower under this Agreement shall be made to the account of the Lender at such bank in the United States as it may notify to the Borrower for this purpose.

8.2 Currency and funds

Payments under this Agreement to the Lender shall be made in Dollars for value on the due date.

8.3 Set-off and counterclaim

All payments made by the Borrower hereunder shall be made without set-off or counterclaim.

8.4 Non-business days

- (a) If a payment hereunder is due on a day which is not a Business Day, the due date for that payment shall instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal under this Agreement interest is payable on the principal at the rate payable on the original due date.

8.5 Partial payments

- (a) If the Lender receives a payment insufficient to discharge all the amounts then due and payable by the Borrower hereunder, the Lender shall apply that payment towards the obligations of the Borrower hereunder in the following order:
 - first, in or towards payment pro rata of any accrued interest due but unpaid under this Agreement;
 - secondly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and
 - thirdly, in or towards payment pro rata of any other sum due but unpaid under this Agreement.

- (b) Paragraph (a) above shall override any appropriation made by the Borrower.
- 9. NOT USED

10. ILLEGALITY

If it is or becomes unlawful or contrary to any regulation in any jurisdiction for the Lender to give effect to any of its obligations as contemplated by this Agreement or to fund or maintain its participation in the Loan, then:

- (a) the Lender shall promptly notify the Borrower accordingly; and
- (b) the Borrower shall, on the latest day permitted by the relevant law or regulation, prepay the Loan together with all other amounts payable by it to the Lender under this Agreement.

11. REPRESENTATIONS AND WARRANTIES

11.1 Representations and warranties

The Borrower makes the representations and warranties set out in this Clause 11 (Representations and warranties) to the Lender.

- 11.2 Status
- (a) It is a Delaware limited liability company, and
- (b) it has the power to own its assets and carry on its business as it is being conducted.

11.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into, performance and delivery of, this Agreement and the transactions contemplated by this Agreement.

11.4 Legal validity

This Agreement constitutes its legal, valid, binding and enforceable obligation, subject, as to enforceability, to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

11.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, this Agreement do not and will not:

(a) conflict with any U.S. law or regulation, judicial or official order;

- (b) conflict with its Certificate of Formation or Operating Agreement; or
- (c) conflict with any document which is binding upon it.

11.6 No default

No Event of Default or Default is outstanding or will result from the Loan.

11.7 Authorisations

All authorisations required of the Borrower by the laws of Delaware or by any other applicable law in the United States in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, this Agreement have been obtained or effected (as appropriate) and are in full force and effect.

11.8 Litigation

No litigation, arbitration or administrative proceedings involving the Borrower are current or, to its knowledge, pending or threatened:

- to restrain the entry into, exercise of any of its rights, and/or performance or enforcement
 of or compliance with any of its obligations, hereunder; or
- (b) which have a Material Adverse Effect.

11.9 Assets

The Borrower is and will remain the legal and/or beneficial owner of all its assets free from any Security Interests, other than the Pledge Agreement.

11.10 No commitment

The Borrower has no Financial Indebtedness (other than the Loan made hereunder).

11.11 Payment of taxes

The Borrower has paid all taxes, assessments and other governmental charges imposed on it that have become due and payable.

11.12 Investment Borrower Act of 1940

Neither the Borrower, nor any of its Subsidiaries, is an "investment company" within the meaning of the U.S. Investment Borrower Act of 1940, as amended.

11.13 Times for making representations and warranties

The representations and warranties set out in this Clause 11 (Representations and warranties) are made by the Borrower, unless it is expressly provided to the contrary, on the date of this Agreement.

11.14 Qualifications to representations :

The Borrower shall promptly disclose to the Lender if any representation and warranty to be made under this Clause 11 (Representations and warranties) ceases to be correct as at the date it is to be made. Any misrepresentation which has arisen or which may arise and which has been disclosed to the Lender may be waived only by a written instrument executed by the Lender expressly setting forth such waiver.

12. UNDERTAKINGS

12.1 Duration

The undertakings in this Clause 12 (Undertakings) remain in force from the date of this Agreement for so long as any amount in respect of principal or interest payable under this Agreement is outstanding.

12.2 Information - miscellaneous

The Borrower shall promptly supply to the Lender such information in the possession or control of the Borrower regarding its financial condition and operations as the Lender may reasonably request and which the Borrower is able to provide without breaching any legal obligation or regulation.

12.3 Notification of default

The Borrower shall notify the Lender of any outstanding Default (and the steps, if any, being taken to remedy it) promptly (and in any event within five days) upon an executive officer of the Borrower becoming aware of its occurrence.

12.4 Authorisations

The Borrower shall promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under or for the validity or enforceability of this Agreement; provided, that the Lender shall use all reasonable efforts to keep the Borrower properly informed in relation to any laws or regulations in Nigeria that may be binding upon the Borrower and relevant to the transaction reflected in this Agreement.

12.5 Pari-passu ranking

The Borrower shall procure that its payment obligations hereunder do and will rank at least pari passu with all its other present and future unsecured and unsubordinated obligations, except for obligations which are mandatorily preferred by law applying to companies generally.

12.6 Disposals

The Borrower shall not sell, transfer, encumber or otherwise dispose of, grant any security over, or cease to exercise control over any of the Shares acquired by it except strictly in accordance with the provisions of the Pledge Agreement, the Share Purchase Agreement and Shareholders Agreement.

12.7 Change of business

The Borrower shall procure that no substantial change is made to the general nature or scope of the business of the Borrower from that carried on at the date of this Agreement. An extension into ancillary businesses does not constitute a change in the general nature or scope of the business of the Borrower for the purposes of this Clause 12.7.

12.8 Constitutional documents

The Borrower will not, without the prior consent of the Lender or as required by applicable law, amend or seek or agree to amend or replace its Certificate of Formation in any way which would be likely materially and adversely to affect the interests of the Lender hereunder.

12.9 Compliance with laws

The Borrower shall comply in all material respects with all applicable laws and regulations, whether domestic or foreign, having jurisdiction over it or any of its assets, failure to comply with which has a Material Adverse Effect; provided, that the Lender shall use all reasonable efforts to keep the Borrower properly informed in relation to any laws or regulations in Nigeria that may be binding upon the Borrower and relevant to the transaction reflected in this Agreement.

DEFAULT

13.1 Events of Default

Each of the events set out in Clauses 13.2 (Non-payment of principal) to 13.13 (Repudiation of Material Agreements and Finance Documents) (inclusive) is an Event of Default (whether or not caused by any reason whatsoever outside the control of the Borrower or any other person).

13.2 Non-payment of principal

The Borrower does not pay on the due date any amount of principal payable by it to the Lender hereunder at the place and in the currency in which it is expressed to be payable and such non-payment continues unremedied for 3 Business Days from the receipt by the Borrower of notice of non-payment from the Lender.

13.3 Breach of other obligations

The Borrower fails to comply with any other undertaking hereunder and such failure continues unremedied for 30 days from the earlier of the Borrower becoming aware of such failure and receipt by the Borrower of notice of such non-compliance from the Lender.

13.4 Misrepresentation

A representation, warranty or statement made in this Agreement is incorrect in any material respect when made or deemed to be made by reference to the facts and circumstances then subsisting and, if the circumstances causing the misrepresentation are capable of remedy within that period, that misrepresentation is not remedied within 28 days of the earlier of the Borrower

becoming aware of the misrepresentation and receipt by the Borrower of notice from the Lender requiring remedy.

13.5 Cross default

Any Financial Indebtedness of the Borrower exceeding in the aggregate \$250,000 becomes prematurely due and payable or is placed on demand as a result of an event of default (howsoever described) under the document relating to such Financial Indebtedness.

13.6 Insolvency; Insolvency proceedings

- (a) An involuntary case shall be commenced against the Borrower and the petition shall not be dismissed, stayed, bonded or discharged for a period of 60 days; or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case, under any applicable bankruptcy, insolvency or other similar law now or hereinafter in effect; or any other similar relief shall be granted under any applicable federal, state or local law; or the board of directors of the Borrower (or any committee thereof) adopts any resolution or otherwise authorizes any action to approve any of the foregoing;
- (b) a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower or over all or a substantial part of the assets of the Borrower shall be entered and such decree or order shall not be stayed, dismissed or discharged for a period of 60 days; or an interim receiver, trustee or other custodian of the Borrower or of all or a substantial part of the assets of the Borrower shall be appointed or a warrant of attachment, execution or similar process against any substantial part of the assets of the Borrower shall be issued and any such event shall not be stayed, dismissed, bonded or discharged for a period of 60 days; or the board of directors of the Borrower (or any committee thereof) adopts any resolution or otherwise authorizes any action to approve any of the foregoing;
- (c) the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its assets; or the Borrower shall make any assignment for the benefit of creditors or shall be unable or fail, or shall admit in writing its inability, to pay its debts as such debts become due, or the board of directors of the Borrower (or any committee thereof) adopts any resolution or otherwise authorizes any action to approve any of the foregoing; or
- (d) any other step (including petition, proposal or convening a meeting) is taken with a view to the rehabilitation, administration, custodianship, liquidation, winding-up or dissolution of the Borrower or any other insolvency proceedings involving the Borrower, and, in the case of any such step taken by any person other than the Borrower, is not withdrawn, discharged or stayed within 60 days, except for any which arises from a Permitted Transaction.

13.7 [Intentionally deleted.]

13.8 [Intentionally deleted.]

13.9 Cessation of business

The Borrower ceases to carry on all or a substantial part of its business, other than in connection with a Permitted Transaction.

13.10 Unlawfulness

It is or becomes unlawful for the Borrower to perform any of its material obligations hereunder.

13.11 Expropriation

The authority or ability of the Borrower to conduct its business is wholly or substantially curtailed by any expropriation or renationalisation by or on behalf of any governmental authority.

13.12 Breach of Material Agreements and Finance Documents

The Borrower commits a material unremedied breach of any Material Agreement or any other Finance Document and such failure continues unremedied for 30 days from the earlier of the Borrower becoming aware of such failure and receipt by the Borrower of notice of such non-compliance from the Lender.

13.13 Repudiation of Material Agreements and Finance Documents

Any Material Agreement or any other Finance Document is repudiated in accordance with its

13.14 Acceleration

- (a) The Lender shall have the right, by notice to the Borrower at least three (3) Business Days following the occurrence of an Event of Default (other than in the case of an Event of Default under Clause 13.6, in which case such notice shall not be required and acceleration shall be automatic) to demand that all or part of the Loan, together with accrued interest under this Agreement be immediately paid, whereupon they shall become immediately due and payable.
- (b) The Lender agrees that it will look solely to the Collateral (as such term is defined in the Pledge Agreement) for repayment of the Loan and all other amounts accrued under this Agreement, and that neither the Borrower nor any of its partners, employees or agents (including, without limitation, any of the persons set forth in Clause 19 (No Recourse) hereof) is personally liable to the Lender for any amounts due under this Agreement.
- (c) Notwithstanding the non-recourse nature of the Borrower's obligations under this Agreement, it is understood and agreed that foreclosure actions (or similar proceedings) may be maintained against the Borrower but any judgment obtained shall be enforced only against the Collateral (as such term is defined in the Pledge Agreement), it being further understood and agreed that nothing herein shall be construed in any way so as to affect or impair the lien of the Pledge Agreement, or to affect or impair the holder's right to foreclose on said security as provided by applicable law or, subject only to the aforesaid limitation upon enforcement of any judgment against the Borrower or any of its partners, employees or agents or against any of the persons set forth in Clause 19 (No Recourse)

hereof, otherwise to limit or restrict any of the rights and remedies of the Lender in any foreclosure proceeding or other enforcement of payment of the Loan out of and from the Collateral (as such term is defined in the Pledge Agreement).

14. CHANGES TO THE PARTIES

14.1 Transfers by the Borrower

The Borrower may not assign, transfer, novate or dispose of any of, or any interest in, its rights and/or obligations under this Agreement without the prior written consent of the Lender, which consent shall not be unreasonably withheld or delayed.

14.2 Transfers by the Lender

The Lender shall have the right to assign, transfer or novate its rights and/or obligations under this Agreement without the consent of the Borrower.

15. SEVERABILITY. COUNTERPARTS

- (a) If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:
 - (i) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
 - (ii) the legality, validity or enforceability in other jurisdictions of that or any other provision of this Agreement.
- (b) This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

16. NOTICES

16.1 Giving of notices

Except as otherwise expressly provided herein in any particular case, all notices, approvals; consents, requests and other communications hereunder shall be in writing and shall, if addressed as provided in Clause 16.2 (Addresses for notices), be deemed to have been given, (i) when delivered by hand, (ii) one Business Day after being sent by a private nationally or internationally recognized overnight courier service, or (iii) when sent by telecopy, if immediately after transmission the sender's facsimile machine records in writing the correct answer back. However, a notice given in accordance with the above but received on a day that is not a Business Day or after business hours in the place of receipt will only be deemed to be given on the next Business Day in that place.

16.2 Addresses for notices

The address, telex number and facsimile number of each Party for all notices under or in connection herewith are:

2132

(i) for the Borrower - those specified in the Share Purchase Agreement; and

(ii) for Lender: Enron Nigeria Power Holding Ltd.

333 Clay Street, Suite 1800 Houston, Texas 77002

Attention: Senior Vice President, Africa

Fax Number: (713) 646-7433

with a copy of all legal notices to:

Enron Asia Pacific/Africa/China 333 Clay Street, Suite 1800 Houston, Texas 77002 Attention: General Counsel Fax number: (713) 345-5538

17. GOVERNING LAW

This Agreement, any amendments hereto in the form of supplemental agreements or otherwise, and any disputes between the Parties arising under or in connection with this Agreement shall be governed by and construed in accordance with the laws of the State of New York, United States of America. Any claim or controversy in connection with this Agreement shall be settled by arbitration conducted under the Rules of Conciliation and Arbitration of the International Chamber of Commerce ("ICC Rules") not inconsistent with the provisions of this Agreement. The arbitration proceeding may commence at the request of either Party and shall be conducted before a panel of three (3) arbitrators, one (1) appointed by each Party and one (1) by the two so chosen. If an arbitrator is not appointed within twenty (20) days of request by either Party, any New York court of competent jurisdiction shall appoint such arbitrator. Judgment may include costs and attorneys' fees and may be entered in any court of competent jurisdiction. The arbitration shall be conducted in New York, NY, United States of America or other such place as the Parties may agree, in the English language. Arbitration shall be the sole method of resolving disputes not settled by mutual agreement. The determination of the arbitrators shall be final and binding on all Parties and may enforced by appropriate judicial order.

18. WAIVER OF SOVEREIGN IMMUNITY

The Borrower represents and warrants that this Agreement and the incurring by the Borrower of the Loan are commercial rather than public or governmental acts and that the Borrower is not entitled to claim immunity from set-off, action, legal proceedings, attachment prior to judgement, other attachment, execution of judgement or enforcement proceedings with respect to itself or any of its assets on the grounds of sovereignty or otherwise under any law or in any jurisdiction where an action may be brought for enforcement of any of the obligations arising under or relating to this Agreement. To the extent that the Borrower or any of its assets has or hereafter may acquire any right to immunity from set-off, action, legal proceedings, attachment prior to judgement, other attachment, execution of judgement or enforcement proceedings on the grounds of sovereignty or otherwise, the Borrower hereby irrevocably waives such rights to immunity in respect of its obligations arising under or relating to this Agreement.

19. NO RECOURSE

The Borrower's obligations under this Agreement are intended to be the obligations of the limited liability company only and no recourse for the payment of the Loan and for any other amount due under this Agreement or for any claim based hereon or thereon or otherwise in respect thereof, shall be had against any member of the Borrower or any incorporator, managing member, officer, director or Affiliate, as such, past, present or future of any such managing member (or the general partner thereof) or of any successor corporation to such managing member (or the general partner thereof) or of any member of the Borrower, or against any direct or indirect parent corporation of such managing member (or the general partner thereof) or of any member of the Borrower or any other subsidiary or Affiliate of any such direct or indirect parent corporation or any incorporator, shareholder, officer or director, as such, past, present or future, of any such parent or other subsidiary or Affiliate.

[Remainder of Page Left Intentionally Blank]

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IN WITNESS WHEREOF the parties have duly executed this Agreement on the day and year first above written.

ENRON NIGERIA, POWER HOLDING, LTD.

[Signature Page to Loan Agreement]

[Signature Page to Loan Agreement]

EXECUTION COPY

DATED 29 DECEMBER 1999

ENRON NIGERIA BARGE HOLDING LTD.

- and -

EBARGE, LLC

- and -

ENRON NIGERIA BARGE LTD.

A Company of the Comp

SHAREHOLDERS' AGREEMENT

Permanent Subcommittee on Investigations EXHIBIT #216b.

MS 04973

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SHAREHOLDERS AGREEMENT dated 29 December, 1999

BETWEEN:

- (1) ENRON NIGERIA BARGE HOLDING LTD., a company registered in the Cayman Islands with its registered office at Huntlaw Building, Fort Street, George Town, Grand Cayman, Cayman Islands ("Enron");
- (2) EBARGE, LLC, a limited liability company registered in Delaware, with its registered
 office at c/o ML Leasing Equipment Corp., 250 Vesey Street, New York, New York
 10281 ("Ebarge"); and
 - (3) ENRON NIGERIA BARGE LTD., a company registered in Nigeria with its registered office at 35 Moloney Street, Lagos, Nigeria (the "Company").

WHEREAS:

- (A) Enron and Ebarge are parties to an agreement dated 29 December, 1999 (the "Share Purchase Agreement") whereby, inter alia, Ebarge agrees to purchase certain shares in the Company from Enron.
- (B) The authorised share capital of the Company as at the date hereof is N10,000,000 divided into 1,000 preferred A shares of N1,000 each, 8,000 preferred B shares of N1,000 each, and 1,000 ordinary shares of N1,000 each.
- (C) The issued share capital of the Company is held by the Parties as set forth in Schedule 1 hereto.
- (D) The Parties have entered into this Agreement in order to provide for the governance of the Company and certain other matters pertaining to the relationship between them.

IT IS AGREED as follows:

1. Interpretation and Definitions

- 1.1 In this Agreement, the following terms shall (unless the context requires otherwise) have the following respective meanings:
 - "A Directors" means the Directors appointed from time to time by the holders of the A Shares.
 - "A Shares" means the 1,000 preferred A shares of N1,000 each in the capital of the Company, defined as such in the Articles.
 - "A Shareholders" means the holders from time to time of the A Shares.
 - "Affiliate" means with respect to any Person, any other Person that (a) controls or owns the first Person, (b) is owned or controlled by the first Person, or (c) is under common ownership or control with the first person, where "own" means ownership of 50% or more of the equity interests or rights to distributions on account of equity of the Person and "control" means the power to direct the management or policies of the Person, whether through the ownership of voting securities, by contract, or otherwise.

"Articles" means the articles of association of the Company in force from time to time.

- "B Directors" means the Directors appointed from time to time by the holders of the B Shares
- "B Shares" means the 8,000 preferred B shares of N1,000 each in the capital of the Company, defined as such in the Articles.
- "B Shareholders" means the holders from time to time of the B Shares.
- "Board" means the board of directors of the Company from time to time.
- "Business Day" means a day other than a Saturday or a Sunday on which banks are open for business in Lagos, Nigeria.
- "Communication" has the meaning specified in clause 16.1.
- "Completion" has the meaning given to such expression in the Share Purchase Agreement.
- "Control" means in relation to a company, any one or more of:
- (a) legal and/or beneficial ownership of shares carrying the right to exercise at least 50% of the votes entitled to be cast at general meetings of the shareholders of the company, or any holding company of that company; or
- (b) the right to appoint directors or other officers to the board or equivalent governing bodies of the company, or any holding company of that company, who have the right to exercise at least 50% of the votes entitled to be cast at meetings of such directors or other officers; or
- (c) the right (legal or de facto) to manage or direct the management of the company, or any holding company of that company.
- "Court" has the meaning specified in clause 18.1.
- "day" means a calendar day.
- "Director" or "Directors" means a director or the directors from time to time of the Company.
- "Engagement Letter" means the letter of even date herewith between Merrill Lynch, Pierce, Fenner & Smith Incorporated and Enron Corp. relating to the acquisition of certain of the Shares and certain ancillary matters connected therewith.
- "Fair Market Value" means the value which is stated in writing by the firm of PricewaterhouseCoopers, or such other accountancy firm of international repute as the Parties may agree, whose charges shall be borne by the Company, to be in their opinion the fair value of the Shares concerned on a sale between a willing seller and a willing purchaser, having regard to the rights and restrictions attached to such Shares.
- "Major Decisions" has the meaning specified in clause 5.1.
- "N" or "Naira" means the lawful currency of the Republic of Nigeria.
- "Offer Price" has the meaning given in the Articles.
- "Ordinary Directors" means the directors appointed from time to time by the holders of the Ordinary Shares.

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- "Ordinary Shareholder" means a holder of Ordinary Shares.
- "Ordinary Shares" means the 1,000 ordinary shares of N1,000 each in the capital of the Company.
- "Party" or "Parties" means any party to this Agreement or all of them, as the context requires.
- "Person" includes any individual, corporation, company, limited liability company, partnership (general or limited), business, trust, or other governmental or non-governmental entity or association.
- "Power Purchase Agreement" means the power purchase agreement dated 6 December 1999 made by and among Enron Nigeria Power Holding Ltd, Lagos State, the Federal Republic of Nigeria and the National Electric Power Authority of Nigeria.
- "Sale Notice" has the meaning specified in the Articles.
- "Shareholder" means a holder of Shares.
- "Share Purchase Agreement" has the meaning specified in recital (A).
- "Shares" means the Ordinary Shares and/or the A Shares and/or the B Shares, as the context shall require.
- "Transfer" means to sell, transfer, assign, pledge, charge, or grant a security interest over, or otherwise to dispose; and "Transferee" and similar expressions shall be construed accordingly.
- "United States" and "US" means the United States of America.
- 1.2 Except where the context requires otherwise, references to clauses or Schedules are to clauses of or Schedules to this Agreement.
- 1.3 Headings are inserted for convenience only and shall not affect the construction of this Agreement.
- 1.4 References to any gender include all others if applicable in the context.
- 1.5 All uses of include or including mean without limitation.
- 1.6 References to a contract, agreement, or other document mean that contract, agreement, or document as amended, modified, or supplemented, if applicable, from time to time.
- 2. Existing Business and Interests of the Company
- 2.1 Existing Business of the Company. The business of the Company is the financing, development, ownership and/or operation of, initially, three (3) barge mounted electricity generating units located or to be located in Lagos, Nigeria, or activities ancillary thereto.
- 2.2 Best Interests of the Company. The Parties acknowledge that the business of the Company shall be conducted by the Directors in the best interests of the Company on sound commercial profit-making principles so as to generate the maximum achievable maintainable cash flows available for distribution.

3. Directors of the Company

- 3.1 Appointment. The A Shareholders shall have the right, exercisable by notice in writing to the Company, to appoint at any time up to, but no more in aggregate at any one time than, one A Director. The B Shareholders shall have the right, exercisable by notice in writing to the Company, to appoint at any time up to, but no more in aggregate at any one time than, eight B Directors. The Ordinary Shareholders shall have the right, exercisable by notice in writing to the Company, to appoint at any time up to, but no more in aggregate at any one time than, one Ordinary Director.
- 3.2 Removal. Any A Director may be removed or replaced, with or without cause, and any vacancy may be filled by notice delivered to the Company by, the A Shareholders. Any B Director may be removed or replaced, with or without cause, and any vacancy may be filled by notice delivered to the Company by the B Shareholders. Any Ordinary Director may be removed or replaced with or without cause, and any vacancy may be filled by notice delivered to the Company by, the Ordinary Shareholders. To the extent that any further action (corporate or shareholder) is required to give full legal effect to any such notice, the Parties shall procure that such further action is taken promptly and in any event within 21 days of the date of the notice.
- 3.3 Chairperson. The position of chairperson of the Board shall be a nominee from time to time of the B Directors from among their number. The chairperson of the Board shall have a casting vote at all and any meetings of the Board.
- 3.4 Actions of Directors. The A Shareholders, the B Shareholders and the Ordinary Shareholders shall take all reasonable steps to ensure that their respective nominees as Directors at all times comply with the requirements of this Agreement. If a Director votes other than in accordance with the requirements of this Agreement, then:
 - (a) as between the Parties, the vote shall be deemed to be invalid and ineffective; and
 - (b) the Shareholder who nominated that Director will procure that such Director is immediately removed from office and replaced by a further nominee of such Shareholder.
- 3.5 Payment of Directors. The Directors will not be entitled to payment from the Company in their capacity as Directors, other than reimbursement of expenses in accordance with any agreement reached with the Company from time to time.
- 3.6 Board meetings. The Board will meet not less than twice in each year, and on any other occasion requested by a Director, by the Company giving not less than 10 Business Days' prior written notice to the Directors."
- 3.7 Alternate directors. Subject to the Articles, each Director shall be entitled to appoint, remove and replace from time to time an alternate director. In the absence of the Director appointing him, an alternate director shall have all powers of that Director in relation to the Board and be deemed to be a member of the Board for all purposes.
- 3.8 Quorum. The quorum for a meeting of the Board shall be five Directors (or their alternates). If a quorum is not present at any meeting of the Board proposed with due notice, the meeting shall be reconvened on the 10th Business Day after (and excluding) the date of the original meeting.
- 3.9 Voting. Subject to Clauses 3.10 and 3.11, each decision of the Board shall, if the decision does not constitute a Major Decision, require a majority affirmative vote of the Directors.

- 3.10 Management. The Directors shall, subject to the Articles and to applicable law (but to the fullest extent permitted thereby), have full and complete authority to conduct the dayto-day management and activities of the Company as they shall in their absolute discretion determine.
- 3.11 Financing. In the event that it would at any time, in the opinion of the Board be in the interests of the Company to seek or obtain any further financing or refinancing of the business or operations of the Company:
 - (a) the Board, or such Person or Persons as the Board may nominate, shall and shall be entitled to arrange, negotiate and conclude any such financing or refinancing on behalf of the Company; and
 - (b) the Shareholders shall co-operate in such financing or refinancing and shall provide such undertakings and such pledges, mortgages and charges over or in respect of the Shares as may reasonably be required in connection therewith.

3.12 Indemnification.

- (a) The Shareholders shall procure that the Company shall indemnify each Director appointed under or following execution of this Agreement (and any alternate of such director) from all losses, costs, liabilities and expenses associated with that individual's service as a Director or alternate director; provided, however, that such indemnification shall not apply to actions constituting gross negligence or wilful misconduct.
- (b) The Shareholders shall procure that the Company and the Company agrees that it shall (out of the funds of the Company) indemnify each Shareholder and its managing member (including the general partner thereof) and their respective officers, members, directors, employees, and agents from and against all losses, costs, liabilities, and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by such party in defending any proceedings, whether civil or criminal, arising in connection with this Agreement or as a result of such Shareholder's membership in the Company or involvement in the affairs of the Company, in which judgment is given in such party's favor, or in which such party is acquitted, or in connection with any application under Section 641 of the Decree (as defined in the Articles) in which relief is granted to such party by the Court.

/ 4. Shareholders

- 4.1 Meetings of Shareholders. The Shareholders shall meet at least once every fiscal year, at such location and on such date and time as may be determined by the Board. Meetings of the Shareholders may be called by the Board, and shall be called by the Board upon the request of any Shareholder owning Shares representing at least 25% of a particular class of Shares, upon 10 Business Days' notice to all Shareholders. No business shall be acted upon at such a meeting that is not stated in the notice of the meeting.
- 4.2 Quorum. No action may be taken at a meeting of the Shareholders unless a majority of the B Shareholders are present at such meeting by way of authorised representative.

5. Major Decisions

- 5.1 Major Decisions. The Shareholders shall not, and shall procure that their appointees as Director shall not, make any Major Decision unless, in addition to any other consents or approvals that may be required, a majority of Directors have approved such Major Decision at a meeting of the Board or in writing (and subject and without prejudice to the provisions of the Articles). The following decisions constitute "Major Decisions":
 - (a) undertaking borrowings, or incurring other indebtedness, in excess of \$5 million;
 - (b) mergers, consolidations, sale of all or substantially all of the assets, liquidation (partial or complete) or dissolution of the Company;
 - issuing additional Shares in the Company or granting any right to acquire any
 other equity interest in (or instrument convertible into equity interests in) the
 Company;
 - (d) amendment to the memorandum of association of the Company or of the Articles; and/or
 - (e) a decision to wind up the Company.

6. Taxation

- 6.1 All matters in relation to taxation of the Company shall be treated or determined as the Board shall in its absolute discretion decide.
- 6.2 The Shareholders or any of them shall be entitled to procure that the Company pays all amounts required to be paid by the taxation codes and laws of Nigeria and any other applicable law, and withholds such amounts from distributions to the Shareholders to the extent required to be withheld by any such codes or law.
- 6.3 A Shareholder shall reimburse to the Company any amount distributed to the Shareholder in respect of which the Company has paid any withholding taxes on behalf of such Shareholder in accordance with applicable law, promptly following receipt from the Company of evidence of payment of such taxes.
- The Shareholders acknowledge that the Company shall be treated as a partnership for the purposes of United States income tax, and that the Company shall not be otherwise characterised for the purposes of any tax returns, statements or reports filed by the Shareholders or any of their Affiliates with the income tax authorities of the United States. The Shareholders shall prepare and file, or shall procure the preparation and filing of, with the income tax authorities of the United States, any form, election, or application which in their reasonable opinion is necessary to cause the Company to be treated as a partnership for the purposes of United States income tax.
- 6.5 The Shareholders shall not amend the memorandum of association of the Company or the Articles where such amendment might reasonably be expected to cause the Company not to be treated as a partnership for the purposes of United States income tax.
- 6.6 None of Shareholders or their Affiliates shall take any action that might reasonably be expected to result in the Company:
 - having income effectively connected with a United States trade or business for the purposes of United States federal income tax;

- (b) receiving income from a United States source for such purposes; or
- (c) otherwise being required to file a United States income tax return subject to Clause 6.7.
- 6.7 Except to the extent that the Board otherwise determines and subject to clause 6.8, the Shareholders shall prepare and file, or shall procure the preparation and filing of, with the income tax authorities of the United States, for or in respect of the Company:
 - any information and/or reporting returns for the purposes of United States income tax;
 - (b) at the request of any Shareholder, an election under Section 754 of the United States Tax Code, subject to the right of any Shareholder to seek to revoke any such election in relation to subsequent transactions; and
 - any other form, election, application or request reasonably determined by the Board to be desirable,

and shall provide any information reasonably required from them for the purposes of any such filing.

- 6.8 The Shareholders shall procure that the Company shall provide a copy of any filing proposed to be made in accordance with this clause 6 to all Shareholders a reasonable time prior to the making of such filing, and no such filing shall be made to the extent that it might reasonably be expected to result in any increased direct or indirect tax cost to the Company. The Shareholders shall procure that, as soon as reasonably practicable and not later than 90 days following any such filing, the Company shall provide a copy of such filing to each of the Shareholders.
- 7. [Not Used]
- 8. Transfer of Shares
- 8.1 General Except as expressly provided in this Agreement or with the written consent of each other Shareholder, no Shareholder may Transfer any of its Shares.
- 8.2 Transfers to Affiliates and Connected Persons. A Shareholder shall be free to sell and transfer to an Affiliate of that Shareholder, on any terms and at any price, all or any of its Shares, provided that:
 - (a) the proposed transferee shall first have executed and delivered an assumptiondocument in accordance with clause 8.3; and
 - (b) any transfer pursuant to this clause 8.2 shall not release the transferring Shareholder from any of its obligations or liabilities under or arising out of this Agreement prior to the time of the transfer.
- 8.3 Transferee obligations. A Shareholder shall not Transfer any of its Shares unless prior to any such Transfer the intended transferee assumes (in a written document on terms reasonably satisfactory to the non-transfering Shareholders) all of such Shareholder's obligations under this Agreement.
- 9. Warranties
- 9.1 Mutual warranties. Each Shareholder warrants to the other Shareholders that:

- it is a duly organised, validly existing entity, is in good standing under the laws
 of the jurisdiction of its formation and has all requisite power and authority to
 enter into and to perform its obligations under this Agreement;
- (b) its execution, delivery and performance of this Agreement have been authorised by all necessary corporate action on its part and that of its equity owners (if required) and do not and will not (i) violate any law, rule, regulation, order or decree applicable to it or (ii) violate its organisational documents;
- (c) this Agreement is a legal and binding obligation of that Shareholder, enforceable against that Shareholder in accordance with its terms, except to the extent enforceability is modified by bankruptcy, reorganisation and other similar laws affecting the rights of creditors generally and by general principles of equity;
- (d) there is no litigation pending or, to the best of its knowledge, threatened to which that Shareholder or any of its Affiliates or any Person that Controls that Shareholder is a party that could reasonably be expected to have a material adverse effect on the financial condition, prospects, or business of that Shareholder or its ability to perform its obligations under this Agreement.

10. Events of Default

- 10.1 Events of Default. It is an Event of Default, whether or not it is within the control of any Shareholder, if:
 - (a) material breach:
 - (i) any Shareholder breaches any material obligation under this Agreement;
 - another Shareholder gives written notice of the breach to the Shareholder in default and to the other Shareholders, and
 - where such breach is capable of remedy, the Shareholder in default does not remedy the breach within 30 days after the date of the notice;
 - (b) winding-up: an application or order is made for the winding-up of any Shareholder or a resolution is passed or any steps are taken to pass a resolution for such winding-up;
 - receiver: a receiver, receiver and manager, trustee in bankruptey, administrator
 or similar officer is appointed over the assets or undertaking of any Shareholder;
 - (d) arrangements: any Shareholder becomes insolvent and enters into or resolves
 to enter into any arrangement, composition or compromise with, or assignment
 for the benefit of, its creditors or any class of them;
 - (e) disposal of shares: any Shareholder Transfers or purports to Transfer any of its shares in breach of the Articles or this Agreement.
- 10.2 Effect of Event of Default. Without prejudice to any other right or remedy of the Parties under this Agreement or at law, if an Event of Default occurs in respect of a Shareholder such Shareholder shall be deemed to have issued to the remaining Shareholders, to be received on the last date on which any of the remaining Shareholders becomes aware of such Event of Default, a Sale Notice in accordance with the Articles in respect of all Shares held by such Shareholder, and specifying as the Offer Price the Fair Market Value of such Shares.

Dissolution and Liquidation

- 11.1 Events Causing Dissolution. The Company shall be dissolved and its affairs wound up upon the occurrence of any of the following events:
 - the consent in writing to dissolve and wind up the affairs of the Company by the
 affarmative vote of Shareholders which in the aggregate own more than two-thirds
 (2/3) of all the Shares;
 - (b) the sale or other disposition by the Company of all or substantially all of its assets and the collection of all amounts derived from any such sale or other disposition, including all amounts payable to the Company under any promissory notes or other evidences of indebtedness taken by the Company (unless the Shareholders shall elect to distribute such indebtedness to the Shareholders in liquidation), and the satisfaction of contingent liabilities of the Company in connection with such sale or other disposition; or
 - (a) the occurrence of any other event that, under Nigerian law, would cause the dissolution of the Company or that would make it unlawful for the business of the Company to be continued.

11.2 Distributions Upon Dissolution.

- (a) Upon the dissolution of the Company, the Board (or any other person or entity responsible for winding up the affairs of the Company) shall proceed without any unnecessary delay to sell or otherwise liquidate the assets of the Company, other than the Barges (as defined in the Power Purchase Agreement) or any of them, and pay or make due provision for the payment of all debts, liabilities and obligations of the Company.
- (b) The Board (or any other person or entity responsible for winding up the affairs of the Company) shall distribute the net liquidation proceeds and any other liquid assets of the Company, accrued in accordance with clause 11.2(a), after the payment of all debts, liabilities and obligations of the Company, the payment of expenses of liquidation of the Company and the establishment of a reasonable reserve in an amount estimated by the Board to be sufficient to pay any amounts reasonably anticipated to be required to be paid by the Company, which shall be distributed to the Shareholders in proportion to their respective holdings of Shares (subject always to any preferential rights attaching to such Shares). With the written consent of all of the Shareholders, the Company's assets may be distributed in kind to the Shareholders in the manner set forth in the previous sentence using valuation mechanisms agreed in writing by all of the Shareholders.
- 1.3 Reasonable Time for Winding Up. A reasonable time shall be allowed for the orderly winding up of the business and affairs of the Company and the liquidation of its assets pursuant to clause 11.1 in order to minimize any losses otherwise attendant upon such a winding up.
- 2. Bank Accounts; Books and Records; Financial Statements
- 2.1 Bank Accounts. All funds of the Company shall be deposited in its name in such bank

accounts, time deposits or certificates of deposit, or other accounts at such banks as shall be designated by the Board from time to time, and the Board shall arrange for the appropriate conduct of such account or accounts.

12.2 Books and Records. The Board shall keep, or cause to be kept, accurate, full and complete books and accounts showing assets, liabilities, income, operations, transactions and the financial condition of the Company. Any Shareholder, or its respective designee, shall have access thereto at any reasonable time during regular business hours and shall have the right to copy said records at its own expense.

12.3 Financial Statements and Information.

- (a) All financial statements prepared pursuant to this clause 12.3 shall present fairly the financial position and operating results of the Company and shall be prepared in accordance with generally accepted accounting principles and any applicable legal requirements relating to local statutory accounting and reporting standards.
- (b) Within 90 days after the end of each financial year of the Company, the Board shall prepare and submit or cause to be prepared and submitted to the Shareholders: (i) an audited balance sheet, together with audited statements of profit and loss, Shareholders' equity and changes in financial position for the Company during such year; (ii) a report of the activities of the Company during the year; and (iii) an audited statement showing any amounts distributed to the Shareholders in respect of such year.

13. Shareholder obligations

- (a) Each Shareholder covenants that neither it nor any of its Affiliates nor any of their officers, directors, employees, agents or stockholders shall make, or cause to be made, in connection with the business or affairs of the Company, any payments, loans or gifts or promises or offer of payments, loans or gifts of any money or anything of value, directly or indirectly:
 - to or for the use or benefit of any official or employee of any government or agency or instrumentality thereof;
 - (ii) to any political party, or official or candidate thereof; or
 - (iii) to any other Person either as an advance or as a reimbursement if it knows that any part of such payment, loan or gift will be directly or indirectly given or paid by such other Person to an official, party, party official or candidate referred to in sub-paragraph (i) or (ii) above, or will reimburse such other Person for payments, gifts, or loans previously made, to any such official, party, party official or candidate.
- (b) Each Shareholder shall provide, on or before the 30th day after notice from one of the other Shareholders so requesting, the requesting Shareholder with certification to the effect that it has not, and its Affiliates and their personnel have not, made or sought any payments, directly or indirectly, in violation of this clause 13.

14. Conflicts and further assurances

- 14.1 Conflicts. In the event of any conflict between the provisions of this Agreement and the Articles, the provisions of this Agreement shall prevail as between the Shareholders.
- 14.2 Further assurances. The Parties shall, and shall cause their respective Affiliates and the Company to: (a) exercise all voting and other rights and powers available to them so as to give effect to the provisions of this Agreement; and (b) if necessary ensure any required amendment to the memorandum or articles of association of the Company as may be necessary to give effect to the intent and purpose of this Agreement.

15. Confidentiality

- 15.1 Duty of confidence. Each Shareholder shall, and shall cause its Affiliates to, keep confidential all written and/or electronically stored data in relation to the business, operation and affairs of the Company; provided, however, that this obligation of confidentiality shall not apply to any disclosure of information:
 - that is in or enters the public domain without a breach of a duty of confidentiality by the disclosing Person;
 - (b) the disclosure of which is required by law, regulation, legal process, or order of any court or governmental body having jurisdiction or pursuant to the regulations of any securities exchange upon which any of the Parties is listed;
 - (b) to its Affiliates, and to the employees, agents, consultants, bankers, financial and professional advisers of that Party or its Affiliate, provided that (i) they have a reasonable need to know the information and (ii) they are instructed and agree in writing to maintain such information confidential; or
 - (c) where such disclosure is reasonably required in connection with the financing or refinancing of the business or operations of the Company or of any Affiliate of the Company.
- 15.2 Specific exceptions. Notwithstanding the provisions of clause 15.1, in the course of a negotiation to sell Shares in accordance with clause 8, a Shareholder may disclose information that would otherwise be subject to the provisions of clause 15.1 to a prospective purchaser or adviser, provided that such Person shall first enter into a binding undertaking with the other Parties that such Person will (a) only use such information for the purpose of evaluating the proposed purchase of Shares, and (b) maintain the confidentiality of such information in accordance with the provisions of clause 15.1 as if it were party to this Agreement and bound by it.
- 15.3 Remedy for breach. Each Shareholder acknowledges that damages would be an insufficient remedy for a breach of clauses 15.1 or 15.2 and that any Party may apply for injunctive relief to compel compliance by a Shareholder with the provisions of such clauses. The provisions of clauses 15.1 to 15.3 inclusive are intended to benefit each Party and their respective Affiliates.
- 15.4 Announcements. Without prejudice to Clause 15.1, any announcement or circular or other publicity relating to this Agreement or any termination hereof shall prior to its publication be approved in writing by each of the Parties as to its content, form and manner of publication (such approval not to be unreasonably withheld or delayed) save

for any announcement, circular or other publicity required to be made or issued by any Party pursuant to the regulations of any securities exchange upon which it is or is to be listed. Save as permitted by the preceding sentence, no Party shall make any announcement or issue any circular or other publicity relating to this Agreement or any termination hereof, provided that such Party shall use its reasonable endeavours to provide a copy of such publicity five Business Days prior to the making or issue thereof.

15.5 Survival. The provisions of clauses 15.1 to 15.4 inclusive shall survive for a period of 3 years following any termination of this Agreement.

16. Notices

- 16.1 Manner of service. Any written communication or document, including process in any legal action or proceedings (a "Communication") which any Party may desire to give or deliver in connection with this Agreement shall be delivered by hand or sent by fax to the addressee at its address or fax number set out in clause 16.3 (any such notice sent by fax to be confirmed in hard copy form by post or by hand, provided that this shall not prevent the notice from having been effectively delivered upon receipt by the addressee of the relevant fax).
- 16.2 Time of notice. A Communication shall be deemed to have been given, if delivered by hand, at the time of delivery, or, if sent by fax, on the Business Day following the day on which the same shall have been transmitted (provided that a copy of the Communication is delivered by hand as soon as is practicable).
- 16.3 Addresses. At the date of this Agreement the addresses, fax numbers and, where applicable, contact names of the Parties for the purposes of Communications are as follows:

If the notice is to Enron:

Enron Nigeria Barge Holding Ltd.
333 Clay Street, Suite 1800
Houston, Texas 77002
Attention: Senior Vice President, Africa

Fax Number: 1 713 646 7433

with a copy of all legal notices to: Enron Asia Pacific/Africa/China

333 Clay Street, Suite 1800 Houston, Texas 77002 Attention: General Counsel Fax Number: 1 713 345 5538

If the notice is to Ebarge:

Ebarge, LLC c/o ML Leasing Equipment Corp. World Financial Center North Tower 250 Vesey Street New York, New York 10281 Attention: William Fuhs Telephone: (212) 449-9782 Telecopy: (212) 449-1787

with a copy of each such notice to be simultaneously given, delivered or served to the following address:

ML Leasing Equipment Corp. Controller's Office World Financial Center South Tower-14th Floor 225 Liberty Street New York, New York 10080 Attention: Kira Toone Telephone: (212) 236-7203 Telecopy: (212) 236-7584

The Parties may change their address, fax number or contact name for the purpose of Communication by notice on the other Parties served in accordance with this clause.

16.4 Proof of service. In proving service of a Communication, it shall be sufficient to prove that the envelope containing the Communication was properly addressed and delivered to the address shown thereon, or that fax transmission of the Communication was made after obtaining in person or by telephone appropriate evidence of the capacity of the addressee to receive the same, as the case may be.

17. General

- 17.1 Regulation. The Parties shall cooperate with each other from time to time to ensure that all information necessary or desirable for the making of (or responding to any requests for further information consequent upon) any notifications or filings made in respect of this Agreement, or the transactions contemplated hereunder are supplied to the Person dealing with such notification and filings and that they are properly, accurately and promptly made.
- 17.2 Successors and Assigns. Neither Party may assign any of its rights or obligations under this Agreement in whole or in part without the approval of each of the other Parties. This Agreement shall enure for the benefit of and be binding on the respective successors in title and permitted assigns of each Shareholder who shall procure in transferring any of its Shares in the Company that each such transferee shall execute an assumption document as provided in Clause 8.3 hereof.

- 17.3 No waiver. No waiver by a Party of a failure or failures by any of the other Parties to perform any provision of this Agreement shall operate or be construed as a waiver in respect of any other or further failure whether of a like or different character or a waiver by any other Party. No failure or delay on the part of a Shareholder in exercising any right, power or privilege hereunder and no course of dealing between the Shareholders and the Company shall operate as a waiver thereof; nor shall any single or paralal exercise of any right, power or privilege hereunder preclude any other of further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any other rights or remedies which a Shareholder would otherwise have at law or in equity or otherwise.
- 17.4 Amendment. Except where specifically provided, this Agreement may be amended only by an instrument in writing signed by duly authorised representatives of each of the Parties.
- 17.5 No partnership or agency; no fiduciary duties.
 - (a) Nothing in this Agreement (or in any of the arrangements contemplated hereby) shall be deemed to constitute a partnership between the Parties or any of them (other than in accordance with the provisions of clause 6), nor constitute any Party the agent of any other Party for any purpose.
 - (b) No Shareholder shall without the written consent of each of the other Shareholders enter into contracts with third parties as agent for the Company nor shall any Shareholder describe itself as agent as aforesaid or in any way hold itself as being agent as aforesaid or as representing the Company.
 - (c) Except as expressly and specifically provided in this Agreement or in another agreement in writing to which it is a party, no Shareholder and no Affiliate of a Shareholder shall by virtue of this Agreement or otherwise owe any duty of care, duty of loyalty or other fiduciary duty to any other Party or its Affiliates. In particular, but without limitation to the generality of the foregoing, nothing in this Agreement shall prevent a Shareholder or its Affiliate from carrying on or owning an interest in any other business or opportunity without having to offer that business or opportunity to the Company.
- 17.6 Severance. If any provision of this Agreement is finally determined to be, or becomes, invalid, illegal or unenforceable, or if the actions or matters contemplated by any of the provisions of this Agreement are finally determined to be, or become, illegal, then such provision shall, so far as invalid or unenforceable, be given no effect and shall be deemed not to be included in this Agreement, but without affecting or invalidating the remaining provisions of this Agreement. Notwithstanding the foregoing, the Parties shall thereupon negotiate in good faith in order to agree the terms of a mutually satisfactory provision achieving as nearly as possible the same commercial effect, to be substituted for the provision found to be invalid, illegal or unenforceable.
- 17.7 Costs and expenses. Costs and expenses incurred in connection with the negotiation, entering into and completion of this Agreement shall be paid in accordance with the Engagement Letter.
- 17.8 Entire Agreement. This Agreement sets out the entire agreement and understanding between the Parties with respect to the subject matter hereof, save for any agreement expressly contemplated by this Agreement. It is agreed that:

- (a) no Party has entered into this Agreement in reliance upon any representation, warranty or undertaking of any other Party which is not expressly set out or referred to in this Agreement;
- (b) no Party shall have any remedy in respect of misrepresentation or untrue statement made by any other Party unless and to the extent that a claim lies for breach of a warranty under this Agreement;
- (c) this clause shall not exclude any liability for fraudulent misrepresentation.
- 17.9 Counterparts. This Agreement may be entered into in any number of counterparts, each of which when executed by one or more Parties shall be an original, but all the counterparts shall together constitute one and the same instrument.
- 17.10 Limitation on Liability. Notwithstanding any other provision of this Agreement, no Shareholder nor any of its Affiliates shall be liable, whether in contract, tort, warranty, negligence, strict liability, or otherwise, for any special, indirect, incidental, or consequential damages arising out of or in connection with this Agreement or its status as a Shareholder or an Affiliate of a Shareholder.
- 17.11 No Recourse. The obligations of each of the Parties under this Agreement are intended to be the obligations of a limited liability company only and no recourse for the payment of any amount due under this Agreement or for any claim based hereon or thereon or otherwise in respect thereof, shall be had against any member of such Party or any incorporator, managing member, officer, director or Affiliate, as such, past, present or future of any such managing member (or the general partner thereof) or of any successor corporation to such managing member (or the general partner thereof) or of any member of such Party, or against any direct or indirect parent corporation of such managing member (or the general partner thereof) or of any member of such Party or any other subsidiary or Affiliate of any such direct or indirect parent corporation or any incorporator, shareholder, officer or director, as such, past, present or future, of any such parent or other subsidiary or Affiliate.

18. Governing Law; Dispute Resolution

This Agreement, any amendments hereto in the form of supplemental agreements or otherwise, and any disputes between the Parties, shall be governed by and construed in accordance with the laws of the State of New York, United States of America. Any claim or controversy in connection with this Agreement shall be settled by arbitration conducted under the Rules of Conciliation and Arbitration of the International Chamber of Commerce ("ICC Rules") not inconsistent with the provisions of this Agreement. The arbitration proceeding may commence at the request of either Party and shall be conducted before a panel of three (3) arbitrators, one (1) appointed by each Party and one (1) by the two so chosen. If an arbitrator is not appointed within twenty (20) days of request by either Party, any New York court of competent jurisdiction shall appoint such arbitrator. Judgment may include costs and attorneys fees and may be entered in any court of competent jurisdiction. The arbitration shall be conducted in New York, NY, United States of America or other such place as the Parties may agree, in the English language. Arbitration shall be the sole method of resolving disputes not settled by mutual agreement. The determination of the arbitrators shall be final and binding on all Parties and may enforced by appropriate judicial order.

19. Not Used

20. Waiver of Sovereign Immunity

Each Party for itself and its Affiliates unconditionally and irrevocably agrees that:

- (a) its obligations under this Agreement constitute private and commercial acts rather than public or governmental acts;
- (b) to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to it or its assets or revenues such immunity (whether or not claimed), it shall not claim, and it irrevocably waives, such immunity to the full extent permitted by the laws of such jurisdiction; and
- (c) it waives, to the fullest extent permitted by applicable law, any power, right or entitlement that it might otherwise have in any proceedings in connection with this Agreement to request or seek that any other Party should be required to provide security for the costs of such Party in such proceedings.

21. Duration

- 21.1 This Agreement shall continue in full force and effect until the first to occur of the ... following dates:
 - the date on which the holders of shares of one class in the capital of the Company acquire all of the shares of each other class; or
 - (b) the date of the Company's winding-up, or its dissolution in accordance with clause 11,

Provided that the terms of this Agreement shall nevertheless continue to bind the Shareholders thereafter to such extent and for so long as may be necessary to give effect to the rights and obligations embodied herein.

[Remainder of page left intentionally blank]

- 17 -

AS WITNESS this Agreement has been signed by the duly authorised representances of the Parties the day and year first before written.

ENRON NIGERIA BARGE HOLDING LTD.

By: Name: JAMES A Highes Title: Director

EBARGE, LLC
By:
Name:
Title:

ENRON NIGERIA BARGE LTD.

Name: James A Hughes
Title: Director

[Signature Page to Shareholders' Agreement]

2155

AS WITNESS this Agreement has been signed by the duly authorised representatives of the Parties the day and year first before written.

ENRON NIGERIA BARGE HOLDING LTD.

By: Name: Title:

By: Joseph S. Valenti Name: Joseph S. Yalenti Tille: Vice President & Treasurer

ENRON NIGERIA BARGE LTD.

By: Name: Title:

[Signature Page to Shareholders' Agreement]

2156

SCHEDULE 1 Issued Share Capital

Sharebolder	Class of Shares	No. of Shares
Ebarge, LLC	Preferred A Shares	1,000
	Ordinary Shares	1,000
Enron Nigeria Barge Holding Ltd.	Preferred B Shares	8,000

2157

BENEFITS TO ENRON SUMMARY

Deal Name: Bargeco

Dollar Amount: \$7.5 million

Date: 6/29/00

Description of Transaction: Enron sold barges to Merrill Lynch (ML) in December of 1999, promising that Merrill would be taken out by sale to another investor by June, 2000. The project could not be sold by June, so without LJM2's purchase Enron would have had to strain the ML/Enron relationship or repurchase the assets and reverse earnings and funds flow on the original transaction.

Enron Business Unit Benefited: Enron International (Africa)

Did the deal result in a direct or indirect benefit to Enron? Indirect

Primary Benefit: Avoidance of earnings and funds flow reversal (indirect)

Funds Flow Direct:

Funds Flow Indirect: \$28.0 million

Earnings Direct: \$2.0

Earnings Indirect: \$12.0 million

Fees Saved:

Other equity investors bidding on the transaction: none

Did the deal close with LJM? yes

Other benefits to Euron:

- o Protected the Enron/ML relationship
- o Speed of execution under three weeks
- o Complexity Nigerian structured transaction
- Willingness of execution Project was located in Nigeria, project was behind schedule and little time was available for due diligence.

Compiled by: Ace Roman

Permanent Subcommittee on Investigations
EXHIBIT #217

MK009302

Confidential Treatment Requested

2158

Valenti, Joseph S (IBK-NY)

Toone, Kira (IBK-NY)
Tuesday, June 13, 2000 1:21 PM
'ahoffman@wbam.com'
Valenti, Joseph S (IBK-NY); Haugh, Gerard (IBK-NY)
Ebarge LLC From: Sent: To: Cc: Subject:

Alan,

As we approach June 30, 2000 I am getting questions concerning Ebarge, LLC. It was our understanding that Merrill Lynch IBK positions would be repaid its equity investment as well as a return on its equity by this date. Is this on schedule to occur? Please advise.

Regards, Kira

Permanent Subcommittee on Investigation

EXHIBIT #218

MS 06636

Valenti, Joseph S (IBK-NY)

Carlin, Gary (IBK-NY) Thursday, June 15, 2000 8:44 AM Valenti, Joseph S (IBK-NY) FW: Ebarge Letter-Enron From: Sent: To: Subject:

fyi — Original Me

Gary:

See below-latest info re Enron subject we discussed yesterday.

Jean

FYI, all is well

Colginal Message— From: First, William R.(IBK-NY) Sent: Wednesday, June 14, 2000 1:25 PM To: Wilson, Geoffrey (IBK-NY); Furst, Robert (IBK-DAL) Subject: RE: Ebarge Latter

Rob & Geoff,
I just had a call with Dan Boyle (he pre-empted our letter) about the Nigerian Barges transaction.

Enron has lined up a new buyer. This new buyer will purchase cur ownership interest in the EBarge for the agreed upon amount outlined in the previously forwarded memo. Additionally. Enron has already engaged V&E to draft the documentation necessary & there should be no problem wrapping this up rather quickly.

Thanks,
Bill

Criginal Message
From: Wilson, Geoffrey (BK-NY)
Sent: Wednesday, June 14, 2000 12:58 PM
To: Furst, Robert (BK-DAL)
Cc: Furst, William R.(ISK-NY)
Subject: Ebarge Letter

Rob-

Attached for your review is the letter to Enron concerning our equity investment in Enron Nigeria Barge Ltd. Let me know if you would like me to make any changes.

Geoff Wilson Strategic Asset Lease & Finance Group (212) 449-9036

<< File: Letter1.doc >>

Permanent Subcommittee on Investigations EXHIBIT #219

MS 06634

June 14, 2000

Mr. Dan Boyle Enron Corp. 1400 Smith Street Houston, TX 77002-7369

Re: Equity Investment in Enron Nigeria Barge Ltd.

On December 29, 1999, Ebarge LLC, a limited liability company controlled by Merrill Lynch ("Ebarge"), purchased 1,000 Preferred A Shares and 1,000 Ordinary Shares of Enron Nigeria Barge Ltd. for \$28 million. \$21 million of the \$28 million purchase price was lent to Ebarge by Enron Nigeria Power Holding. Ltd. The remaining \$7 million represents Ebarge's net equity investment in Enron Nigeria Barge Ltd. Enron has agreed to purchase the shares from Ebarge by June 30, 2000 for a purchase price, net of the balance on the loan from Enron Nigeria Power Holding, Ltd., of \$7,510,976.65.

Please wire this amount to the following account on or before June 30, 2000:

Chase Manhattan Bank
For the Account of ML IBK Positions, Inc.
Account#:

ABA#: 021-000-021

Our counsel, Whitman Breed Abbott & Morgan, will forward on to you for your execution prior to the transfer of funds, documentation including a Stock Purchase Agreement and Stock Transfers evidencing the transfer of shares from Ebarge LLC to Enron and the assumption of the Enron Nigeria Power Holding, Ltd. loan by Enron.

Sincerely,

Robert S. Furst Managing Director

ce: J. Brown J. Tomaselli W. Fuhs G. Wilson

Cariddi, Curt (Private Equity Finance)

From: Sent: To:

Cariddi, Curt (Private Equity Finance)
Friday, January 18, 2002 10:50 AM
Valenti, Joseph S (Private Equity Finance); Devine, John (GMI NY-Finance); Fosina, John
(ML & Co. Finance)
Carlin, Gary (IBK-NY)
RE: eBarge

Cc: Subject:

FYI, descriptions for the acct #s provided by Joe Valenti

13019 - "Other Investments" used for other non-highly liquid investments in equity securities held by non-8/D 13015 - "IBK Strategic Svcs" 46422 - "Other Revenue-Other" distributions from various partnerships (we got a K-1).

ccanddig exchange.ml.com

----Original Message-

From: Sent: To: Cc:

al Message—
Valenti, Joseph S (Private Equity Finance)
Friday, January 18, 2002 9:26 AM
Canddi, Curl (Private Equity Finance); Dewne, John (GMI NY-Finance); Fosina, John (ML & Co. Finance)
Carlin, Gary (IBK-NY)
RE: éBarge

Subject

Folks: As requested, here are the accounts that were hit :

a) \$7,000,000 investment - Acct 13019 on the books of MLIBK Positions, Inc.
b) 250,000 advisory fee - Acct 43015 on the books of MLIBK Positions, Inc.
c) 525,000 return on equity - Acct 46422 on the books of MLIBK Positions, Inc.

Any further questions, please let me know.

Subject: esarge

On 12/30/99, ML IBK Positions funded a S7M suity investment in E-Barge, LLC through a direct payment to Erron Nigerian Power Hidgs Ltd. (one of E-Barge, LLC's investments). We were paid a fee of S250K at the time of funding. The funding was considered by Enron as a bridge to permanent equity and the arrangement called for them to pay interest of 15% per annum on such investment. The equity/bridge was taken out on 8/29/00 for S7.525M (\$525K interest © 15% for six months) on the sale of the investment to LJM-2 E-Barge LLC. The S250K fee plus the S525K interest totaled a 22.14% annualized return.

Any questions pis call me or Joe Valenti. 1 am in JC today.

Cart Cariddt

Private Equity Finance

4 World Financia Cx-24th Fin.
Nex York NY 10080

201-451-0398

201-451-0398

201-671-4510

R 212-449-2303 212-449-1119 Cell 917-257-3459

counddig exchange ml.com

Permanent Subcommittee on Investigations

EXHIBIT #220

MS 06146

Tracking:

Recipient
Valent, Joseph S (Private Eduty Finance)
Devine, John (GMI NY-Finance)
Fosina, John (ML & Co. Finance)
Carlin, Gary (IBK-NY)

2

Read Read: 01/18/2002 10:55 AM Read: 01/18/2002 7:54 AM Read: 01/18/2002 10:54 AM Read: 01/19/2002 5:25 PM

MS 06147

Valenti, Joseph S (IBK-NY)

From: Sent: To: Co: Subject:

Toone, Kira (IBK-NY) Trusday, May 04, 2000 5:42 PM Carlin, Gary (IBK-NY) Valenti, Joseph S (IBK-NY) Ebarge LLC

Gary,

Attached is the calculation of the income accrual for Ebarge LLC:

Income accrued from 12/29/99-12/31/99 (\$7,000,000 * 15%* 2 /365) = \$5,753.42

Income accrued from 1/1/00- 5/3/00 (\$7,000,000 * 15% * 124/366) = \$355,737.70

Total income accrued to date \$5,753.42 + \$355,737.70 = \$ \$361,491.12

FYI- the investment is on the books of ML IBK positions. You may receive wiring instructions from either Gerard Haugh or Mike DeBellis.

Regards, Kira

Permanent Subcommittee on Investigation EXHIBIT #221

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT (the "Agreement") made as of the 29th day of June, 2000, by and between LJM2-EBARGE, LLC, a Delaware limited liability company (hereinafter referred to as the "Purchaser"), and ML IBK POSITIONS, INC., a Delaware corporation (hereinafter referred to as the "Seller").

WITNESSETH:

WHEREAS, the Seller is the record and beneficial owner of one (1) common share, par value \$1.00, of EBARGE, LLC (the "Purchased Share"), constituting the entire share capital of EBARGE, LLC, a limited liability company incorporated under the laws of the Cayman Islands, B.W.I. (hereinafter referred to as the "Company"); and

WHEREAS, the Seller desires to sell, and the Purchaser desires to purchase, the Purchased Share upon and subject to the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the foregoing premises, the mutual agreements, representations, warranties and covenants herein contained, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLEI

PURCHASE AND SALE

- I.1 Purchase of the Purchased Share. Simultaneously with the execution of this Agreement, the Seller shall sell to the Purchaser, and the Purchaser shall purchase from the Seller, the Purchased Share for the consideration specified in this Article I.
- 1.2 Purchase Price. The purchase price for the Purchased Share shall be seven million five hundred twenty-five thousand dollars (\$7,525,000).
- 1.3 Payment of Purchase Price. Simultaneously with the execution of this Agreement, and in consideration for the Purchased Share, the Purchaser shall pay to the Seller the purchase price for the Purchased Share, by wire transfer of immediately available funds, to an account designated by the Seller, in the amount of seven million five hundred twenty-five thousand dollars (\$7,525,000).

ARTICLE II

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Seller. The Seller hereby represents and warrants to the Purchaser that:

458740-v7 0064428-0053

Permanent Subcommittee on Investigations
EXHIBIT #222

MS 04970A

- (a) <u>Due Organization</u>. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.
- (b) Purchased Share. The Seller is the lawful owner of the Purchased Share, free and clear of restrictions on transfer, taxes, security interests, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands resulting from the act or omission of the Seller. The Seller is not a party to any option, warrant, purchase right, or other contract or commitments that could require the Seller to sell, transfer, or otherwise dispose of any capital stock of the Company (other than this Agreement). The Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any capital stock of the Company. The Purchased Share constitutes all of the issued and outstanding shares of capital stock of the Company.
- (c) Authorization. All of the issued and outstanding shares of capital stock of the Company have been duly authorized, are validly issued, fully paid, and nonassessable, and are held of record by the Seller. There are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, or other contracts or commitments that could require the Company to issue, sell, or otherwise cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to the Company. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting of the capital stock of the Company. The Seller has full corporate power and authority to execute the Agreement and perform its obligations hereunder. The execution, delivery and performance of this Agreement by the Seller has been duly authorized by all necessary corporate action on the part of the Seller and this Agreement constitutes a legal, valid, and binding obligation of the Seller enforceable in accordance with its terms. The Seller need not give notice to, or make any filing with, or obtain any authorization, consent or approval of any governmental or governmental agency in the United States in order to consummate the transactions contemplated hereby.
- (d) Noncontra ention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (1) violate any United States constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or court to which the Seller is subject under the laws of the United States or, any provision of its charter or bylaws or (2) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Seller is a party or by which it is bound or to which any of its assets is subject.

2.2 Representations and Warranties of the Company.

(a) Organization, Qualification, and Corporate Power. The Company is a company duly organized, validly existing, and in good standing under the laws of the jurisdiction of the Cayman Islands, B.W.I. The Company is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required. Attachment A hereto lists the directors and officers of the Company. The Seller has delivered to the Purchaser correct and complete copies of the Memorandum and Articles of Association of the Company (as amended to date). The minute books (containing the records of meetings of the stockholders, the

board of directors, and any committees of the board of directors), the stock certificate books, and the stock records books of the Company are correct and complete.

- (b) <u>Title to Assets</u>. The Company has good and marketable title to, or a valid leasehold in, the properties and assets used by it, located on its premises, free and clear of all security interests arising from any willing or knowing act or omission of the Company.
 - (c) Events Subsequent to December 29, 1999. Since December 29, 1999:
- (i) the Company has not sold, leased, transferred, or assigned any of its assets, tangible or intangible;
- . (ii) the Company has not imposed any security interest upon any of its assets, tangible or intangible;
- (iii) there has been no change made or authorized in the formation and organizational documents of the Company, other than in connection with the re-domiciling of the Company from Delaware to the Cayman Islands, B.W.I. on February 17, 2000 and the amendment made to the Articles of Association on the date hereof;
- (iv) the Company has not issued, sold, or otherwise disposed of any of its capital stock, or granted any options, warrants, or other rights to purchase or obtain (including upon conversion, exchange, or exercise) any of its capital stock, other than in connection with the re-domiciling of the Company from Delaware to the Cayman Islands, B.W.I. on February 17, 2000 and the amendment made to the Articles of Association on the date hereof;
- (v) the Company has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees;
- (vi) there has not been any other material transaction involving the Company; and
 - (vii) the Company has not committed to any of the foregoing.
- (d) <u>Undisclosed Liabilities</u>. The Company has no liabilities (and to its knowledge there is no basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against the Company giving rise to any liability), except for liabilities under the Loan Agreement, dated December 29, 1999, between the Company and Enron Nigeria Power Holding, Ltd. and under the transaction documents related thereto.
- (e) <u>Legal Compliance</u>. The Company has complied with all applicable United States federal, state and local laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder), and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against the Company alleging any failure so to comply.

- (f) Tax Matters. The Company has filed all United States tax returns that it was required to file. All such tax returns were correct and complete in all respects. All United States taxes owed by the Company (whether or not shown on any tax return) have been paid.
- (g) <u>Certain Business Relationships.</u> The Seller has not been involved in any business arrangement or relationship with the Company since December 29, 1999 and the Seller does not own any asset, tangible or intangible, which is used in the business of the Company.
- 2.3 Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Seller that:
- (a) <u>Due Organization</u>. The Purchaser is a limited liability company duly formed and is in good standing and has a legal existence under the laws of the State of Delaware and has the power and authority to enter into and perform its obligations under this Agreement.
- (b) Authorization. The execution, delivery and performance of this Agreement by the Purchaser has been duly authorized by all necessary limited liability company action on the part of the Purchaser and this Agreement constitutes a legal, valid, and binding obligation of the Purchaser, enforceable in accordance with its terms.
- (c) Reliance. The Purchaser does not rely on and has not been induced to enter into this Agreement on the basis of any warranties, representations, covenants, undertakings, indemnities or other statements whatsoever, other than those expressly set out in this Agreement, and acknowledges that neither the Seller, the Company nor any of its agents, officers or employees have given any such warranties, representations, covenants, undertakings, indemnities or other statements. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED FOR IN THIS AGREEMENT, THE SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE, RELATING TO THE PURCHASED SHARE, INCLUDING ANY REPRESENTATION OR WARRANTY REGARDING ANY INFORMATION, DATA OR OTHER MATERIALS (WRITTEN OR ORAL) FURNISHED TO THE PURCHASER BY OR ON BEHALF OF THE SELLER OR THE COMPANY.
- (d) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (1) violate any United States constitution, statute, regulation, rule, injunction, judgment, order decree, ruling, charge, or court to which the Purchaser is subject under the laws of the United States or, any provision of its organizational documents or (2) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Purchaser is a party or by which he or it is bound or to which any of its assets is subject.
- (e) Solvency. As of the Closing (hereinafter defined), the Purchaser shall be solvent and will not be rendered insolvent by the transfer of the amount specified in Article I hereof.

(f) Investigation. The Purchaser has made its own independent investigation, analysis and evaluation of the Company and its assets, the value of the Purchased Share and business, financial condition, operation and prospects of the Company.

(g) Securities Act.

- (i) The Purchaser is purchasing the Purchased Share for its own account and not with a view to any resale or distribution of such Purchased Share in violation of the United States Securities Act of 1933, as amended (the "Securities Act");
- (ii) the Purchaser is an accredited investor within the meaning of Regulation D promulgated under the Securities Act and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment hereunder, and
- (iii) the Purchaser acknowledges that (1) the sale of the Purchased Share to be purchased by it hereunder has not been registered or qualified under the Securities Act or any non-United States applicable securities laws, (2) such Purchased Share must be held indefinitely unless subsequently registered under the Securities Act or any non-United States applicable securities laws or an exemption from such registration is available.
- 2.4 Nature and Survival of Representations and Warranties. Notwithstanding any inspection or knowledge on the part of any party hereto, all representations, warranties, covenants and agreements herein contained on the part of each of the parties shall survive the Closing, the execution and delivery of the certificate representing the Purchased Share, and the payment of the consideration therefore until the later of: (i) three (3) years after the date of the Closing; or (ii) the expiration of the statute of limitations applicable to the cause of action asserted by the Purchaser or the Seller with respect thereto.

ARTICLE III

THE CLOSING

3.1 Time and Place. The Closing (the "Closing") of this transaction shall occur simultaneously with the execution of this Agreement.

3.2 Occurrences at Closing.

- (a) The obligation of the Purchaser to consummate the transactions contemplated hereby shall be subject to the Seller delivering to the Purchaser the following:
- all of the minute books, stock ledgers, stock transfer records and other records of the Company;
- (ii) a duly executed share transfer form representing the transfer of the Purchased Share;

-5-

- (iii) the stock certificate representing the Purchased Share duly endorsed in blank;
- (iv) a copy of Resolutions adopted by the Company authorizing, among other things, the deletion of Section 14(a) of the Articles of Association of the Company; and
- (v) the written resignations of the directors and officers of the Company and a notice to Enron Nigeria Barge Ltd. of the removal of the A Director and the Ordinary Director (as defined in the Shareholders' Agreement, dated as of December 29, 1999 among Enron Nigeria Barge Holding Ltd., Enron Nigeria Barge, Ltd. and the Company), effective upon the Closing.
- (b) At the Closing, the Purchaser shall deliver to the Seller a wire transfer to the Seller in immediately available funds, to an account designated by the Seller, in the amount of seven million five hundred twenty-five thousand dollars (\$7,525,000).

ARTICLE IV

MISCELLANEOUS

- 4.1 Further Assurances. It is expressly understood and agreed that each party hereto shall upon such other party's reasonable request, and at the Purchaser's cost and expense, from time to time, execute and deliver to each other all such instruments and documents of further assurance or otherwise, and will do all such acts and things as reasonably may be required to carry out their respective obligations hereunder to consummate and complete this Agreement.
- 4.2 Notices. Any notices or demands desired or required to be given hereunder shall be in writing and deemed given when personally delivered or deposited in the United States mail, postage prepaid, sent certified or registered mail, or sent by overnight courier, and addressed:

If to the Furchaser:

LJM2-Ebarge, LLC

c/o LJM2 Co-Investment, L.P.

333 Clay Street Suite 1203 Houston, TX 77002 Attention: General Partner

If to the Seller.

ML IBK Positions, Inc. c/o Merrill Lynch & Co., Inc.

World Financial Center South Tower

225 Liberty Street
New York, NY 10080-6114
Attention: Gerard Haugh

4.3 Best Efforts; Cooperation. The parties hereto shall each exert their reasonable efforts to obtain all consents and approvals necessary for the due and punctual performance of

-6-

458740-v7 0064428-0053

this Agreement and the satisfaction of the conditions hereof on their part, and shall cooperate with the other party with respect thereto.

- 4.4 Entire Agreement. This Agreement, including the other agreements executed in connection herewith, constitutes and contains the entire agreement of the parties and supersedes any and all prior negotiations, correspondence, understandings and agreements between the parties respecting the subject matter hereof.
- 4.5 Parties and Interest. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto (including any successor by merger), whether herein so expressed or not, but neither this Agreement nor any of the rights, interests or obligations hereunder or of any party hereunder shall be assigned without the prior written consent of the other party hereto, provided that Purchaser can assign its rights, interests and obligations hereunder to an affiliate.
- 4.6 <u>Counterparts.</u> This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument and in making proof hereof it shall not be necessary to produce or account for more than one such counterpart.
- 4.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.
- 4.8 Severability. If any covenant or agreement provided in this Agreement or any agreement executed in connection with this Agreement is deemed to be contrary to law or otherwise unenforceable, that covenant or agreement will be deemed separable from the remaining covenants and agreements contained in this Agreement and will not affect the validity, interpretation, or effect of the other provisions of either this Agreement or any agreement executed pursuant to it or the application of that covenant or agreement to other circumstances not contrary to law or otherwise enforceable.
- 4.9 Headings. The titles and headings preceding the text of the paragraphs of this Agreement have been inserted solely for convenience of reference and neither constitute a part of this Agreement nor affect its meaning, interpretation, or effect.

of June, 2000.	es nereto nave executed this Agreement this
	SELLER
	ML IBK POSITIONS, INC. By Joseph A. Valenti Title: Director, Vice President and Assistant Treasurer
	PURCHASER
	LJM2-EBARGE, LLC
	By: LJM2 Co-Investment, L.P., its managing member
	By: LJM2 Capital Management, L.P., its general partner
	By: LJM2 Capital Management, LLC, its general partner
	By: Name: Title:

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this $2^{a^{\frac{1}{2}}}$ day of June, 2000.

SELLER

ML IBK POSITIONS, INC.

PURCHASER

LJM2-EBARGE, LLC

By: LJM2 Co-Investment, L.P., its managing member

By: LJM2 Capital Management, L.P., its general partner

By: LJM2 Capital Management, LLC, its general parmer

By: States Syn
Name: Karry Lyw
Title: Avrances Press

From: Toone-Meertens, Kira (GMI-PVT EQTY)
Sent: Thursday, January 17, 2002 12:42 PM
To: Valenti, Joseph S (Private Equity Finance)
Subject: Ebarge LLC confirmation of 15% equity return rate

Joe

I could not locate anything on the 15% equity return. Perhaps it would be noted in an LLC agreement. Do you have such an agreement in the folder? If I could take a look maybe I could find something. Let me know if (when) I could look through the folder if you're not currently using it.

Kira

Permanent Subcommittee on Investigations
EXHIBIT #223

From: Valenti, Joseph S (Private Equity Finance)
Sent: Thursday, January 17, 2002 2:13 PM
To: To: Toone-Meeriens, Kira (GMI-PVT EQTY)
RE: RE:

thanks. He did receive the 250. I have an engagement letter him to enron

Joe,

Gerard seemed to think the 22.5% is correct. What happened is 15% or \$525,000 was the equity return and I believe Jim Brown received an upfront fee of \$250,000. \$525,000+\$250,000=\$775,000,\$7,000,000*360/180 = 22.14%.

Kira

Permanent Subcommittee on Investigations EXHIBIT #224

From: Toone-Meertens, Kira (GMI-PVT EQTY)
Sent: Thursday, January 24, 2002 12:19 PM
Valenti, Joseph S (Private Equity Finance)
Subject: RE:

just questions about the accounting-like how did the SPE pay the interest on the loan, who the loan was payable to. I explained that the loan to Ebarge came from Erron and that the vehicle was structured so that we would recoup through the income payments the interest due on the loan and the equity return. Since the interest on the loan was to be paid by Erron(as a component of the income payments) to Erron as a lender no actual cash passed hands other than the equity return. She was fine with that.

such as ?

Original Message
From: Toone-Meertens, Kira (GMI-PVT EQTY)
Sent: Thursday, January 24, 2002 11:59 AM
Valenti, Joseph S (Private Equity Finance)
Subject:

I'm still getting calls on Ebarge from Liz Applebaum. the saga continues......

Permanent Subcommittee on Investigation EXHIBIT #225

From: Sent: To: Subject: Toone-Meertens, Kira (GMI-PVT EQTY) Friday, January 18, 2002 5:04 PM Valenti, Joseph S (Private Equity Finance) Ebarge LLC

Ebarge LL

JOE

I just got a call from Liz Applebaum in Financial Reporting. She was asking about the accounting on the Ebarge LLC. I was able to answer all of her questions except what account the investment was booked to on IBK positions. I tried reaching Mike but he was unavailable. She also said "Kira,vou and Joe have your signatures all over this thing. Poor poor Kira and Joe!!!!" She also advised us not to lose any sleep over this. We'll be fine.

Kira

Permanent Subcommittee on Investigations
EXHIBIT #226

LJM2 INVESTMENT SUMMARY

Deal Name: Bargeco Originated: Enron Development Expected Closing Date: 6/29/00 Expected Funding Date: 6/29/00

Date Completed: June 29th, 2000 Investment Analyst: Ace Roman Investment Type: Equity

Investment
LIM2 Capital Commitment

\$7,525,000.00

Deal Description

eal Description

Lin2 will purchase Mertill Lynch's interest in EBARGE, LLC a Cayman special purpose company set up to own the
preferred A and ordinary shares of Enron Nigeria Barge Limited ("ENBL"). ENBL owns three barges and expects to
own six additional barges that will be subject to Power Purchase Agreements ("PPAS") with the Federal Government of
Nigeria, the Lagos State Government and the National Electric Power Authority of Nigeria ("NEPA"). Mertill Lynch
purchased the equity in ENBL from Enron in December of 1999 for \$28,000,000 of which \$21,000,000 was a sellerfinanced loan. LIM2, through its ownership interest in EBARGE, LLC, will become party to that non-recourse loan.

Transaction Summary

LIM2 will purchase Mertil Lynch's interest in EBARGE for \$7,525,000.00 and will adjust the \$21,000,000 seller financed, non-recourse loan for project specific changes that have occurred since the original transaction closed. LIM2, through its ownership interest in EBARGE, LLC, will become party to a Loan Agreement with Enron, a Pledge Agreement with Enron for all 9 barges, and a Shareholders' Agreement with ENBL. Enron and EBARGE have the ability to remove and profitably relocate or liquidate the barges.

Investment Return Summary

ENBL's preferred A shares are entitled to .1% of all cash flows for the life of the project. The Ordinary shares receive 90% of all cash flows until the sum cash flow to the preferred A and ordinary shares reaches \$37,543,000, after which the ordinary shares reaches \$375,543,000, after which the ordinary shares receive .9% of all cash flows. Interest and principal on the loan are serviced only to the extent that EBARCE, LLC receives project cash flows. Cash flows to LIM2 after dobt service requirements give a return of capital in 15 months, a 23% IRR in 17 months, and a 49% IRR if beld 23 months or longer.

Expected Project Cash Flows - Compound/Annualized IRR - 49%

Risks	Mitigants
PPA counteparty (Nigeria Credit) risk	LIM2's investment will be covered by a \$60,000,000 standby letter of credit from Chibank for Nigerian default risk. Under a liquidation scenario, LIM2 is entitled to first cash flow as determined by a liquidation schedule. The current PPAs are not effective until the letter of credit is executed. If execution is delayed, it is possible to profitably relocate the barges.
Removal of barges under Nigerian payment default	Emon and EBARGE have the ability to remove and profitably relocate or ilquidate the barges. If Enron and EBARGE are unable to remove the barges due to expropriation or political violence, a Political Risk Insurance ("PRI") contract will cover the value of the barges, however, claiming under the policy could result in, absent a collection under the letter of credit, delaying LIM2's liquidation cash flow.
Gas supply risk	Under the PPAs, NEPA is currently responsible for the projects' gas supply. If NEPA undergoes privatization, ENBL will need to obtain a replacement gas supply contract NEPA is required to give a three month advance notice, which should give ENBL sufficient time to secure a replacement. Also, the cost of the gas supply is passed through to ENBL's counterparties in the PPA. This pass through of costs should serve as an incentive for NEPA's assistance in securing a replacement gas contract.

LJM029370

Permanent Subcommittee on Investigations EXHIBIT #227a.

Confidential Treatment Requested

Force Majeure / Contract Risk	*Capacity payments continue except when purchaser is not capable of
	receiving energy due to Force Majeure.
	"If Force Majeure lasts longer than 180 days, NEPA must buyout ENBL
ļ	(EBARGE receives first cash flow).
	If barges are producing electricity, capacity payment obligation applies to
1	PPA counterparties.
1	 Capacity payment obligation applies if barges are not producing electricity
1	due to delay caused by a PPA counterparty.
1	- Arbitration will be in London under ICC rules.
	*Change in law adversely affecting ENBL is a Risk Event allowing
1	compensating adjustments or buyout.

Attached Information
Attached is the Enron Risk Assessment and Controls Nigerian Barge deal approval sheet related to the transaction.

	Name	Signature	Date
ACKNOWLEDGED BY		That I	16.16
	Kathy Lynn	Jose Tol	11.00
	Joyce Tang	- (PPC CAY	2/24/20
APPROVALS	Ace Roman	N Am Home	6/29/00
	Michael Kopper	11 whaten	60100
	Andrew Fastow	fu Hours	6/27/00

Confidential Treatment Requested

LJM029371

Bargeco

LJNZ purchased \$7,525,000 of equity in EBARGE, LLC, a special purpose entity set up to own 9 power barges with capacity to produce 276 MW of electricity. The barges are expected to enter into long-term power purchase agreements with government agencies of third world countries backed by security letters of credit with a U.S. bank, LJNZ's equity position is entitled to 90.1% of all project cash flows until it has reaches a specified dollar amount. LJMZ will keep .1% of all remaining cash flows. Under an early liquidation scenario, LJMZ is entitled to a pre-determined liquidation amount. LJMZ expects to be bought out by Enron within 7 months at a 15% annualized RR. LJMZ will also receive a fee of \$350,000. If Enron does not purchase EBARGE, LLC from LJMZ within 7 months, LJMZ expects to earn 49% from project cash flows within 18 months. Counterparty credit risk on PPA obligations will be mitigated by letters of credit issued by a U.S. bank, backing the obligations of PPA counterparties. In the event of a counterparty payment default, EBARGE, LLC will draw on a political risk insurance contract, which will indemnify the company in the event that it is unable to successfully remove the barges from their location.

Confidential Treatment Requested

Barge LLC Summary

Description	LMA2 will purchase \$7,325,000 of equity in EBARGE, LLC, a special purpose entity set up to own 9 power barges with especify notione 276 MW of electricity. The barges are expected to enter into long-term power purchase agreements with a last power purchase agreements with a last 5, banks. Letters of credit with a 18,5 banks.
Есонотіся	LJM2's equity position will be entitled to 90,1% of all project cash flows until it has reached a specified dollar amount. LJM2 will keep, 1% of all remaining cash flows. Under an early liquidation scenario, LJM2 is entitled to a pre-determined liquidation amount.
Expected Return	LJM2 expects to be bought out by Enron within 7 months at a 15% annualized IRR. LJM2 will also cacety an authoring feed \$330,000.1 if Thron does not purches BBARGE. LLC from LJM2 within 7 months, LJM2 expects to earn 69% from project east 10 lows within 18 months.
Risks and Miliganis	Risk: Counterparty credit risk on PPA obligations. Mighant: BSH/GG, LLC will not enter into a PPA until a tenter of credit has been issued by a U.S. bank backing the obligations of the PPA counterparty. Risk: BBARGE is unable to remove and re-deploy barges in the event of counterparty payment default. Mighant: BBARGE LLC will oblain political risk insurance which will indemnify lite company in the count that it is market to recognific.

LJM029375

Confidential

Considential Treatment Requested

Bargeco Economics

Bargeco economics are based on a negotiated return with Enron. Enron agreed to arrange a buyer for LIM2's equity within 7 months. LIM2 will receive a 15% annualized return on its investment and a \$350,000 fee.

Expected at Close	Amount	Date
LJM2 investment	(7,525,000)	6/29/00
15% IRR at 7 months	658,438	. 1/31/01
Fee	350,000	1/31/01
Repayment of Capital	7,525,000	1/31/01
IRR	24%	

As of September 30, 2000 LJM2 sold it's equity interest in Bargeco for \$8,235,000.

Realized	Amount [Date
LJM2 investment	(7,525,000)	6/29/00
15% IRR at 7 months .	285,000	10/4/00
Fee	350,000	10/4/00
Actual vs. projected expenses (est.)	25,000	10/4/00
Repayment of Capital	7,525,000	10/4/00
IRR	37%	*•

LJM029474

Confidential Treatinent Requested

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: Nigeria Power Holding Ltd.

Counterparty: The AES Corporation

Business Unit: APACHI

Date DASH Completed: November 1, 2000
RAC Analyst/Underwriter: N/A / Michael Tribolet
Investment Type: Divestiture
Capital Funding Source(5):
Expected Closing Date: October 4, 2000
Expected Closing Date: October 4, 2000
Board Approval: □Pending □Received □Denied □N/A

APPROVAL AMOUNT REQUESTED

up to \$127,230,000*

*Total cash

EXPOSURE SUMMARY

Divestiture of projects

This transaction, cancel existing exposure (\$ 142,160,000) Existing exposure approved \$ 142,160,000 \$ 0

TRANSACTION SUMMARY

This DASH proposes approval of: 1) a staged sale of all of Enron APACHI's interests in Nigeria to AES and 2) a related guaranty (up to \$180 million) to the seller to secure our subsidiary's obligations under the Purchase and Sale Agreement.

The following APACHI assets will be sold contingent upon satisfaction of conditions precedent:

1) 95% Interest in Enron Nigeria Barge Ltd. which owns rights to a 270 MW barge mounted IPP project in the State of Lagos. This sale would occur in two stages. At closing, AES will own 30% of Nigeria Barge Ltd. AES will then have the option to purchase Enron's remaining 65% interest in this entity upon completion of their further due diligence and subject to certain conditions, Enron has the right to put the interest to AES.
2) Enron's 65% share in a 548 MW gas fired, simple cycle, combustion turbine Power Plant development project.
3) Enron's 70% share in an option to build a 240 km pipeline to supply the gas fired power plant, described above.

Eyent	Expected Date	Net Cash to Enron	Enron's Current Basis	Gain on Sale
Divestiture:				-
Divestiture of 30% of Enron Nigeria Barge Ltd.	10/4/00	\$8,785,000	\$6,802,147	\$1,982,853
Contingent Divestitures:				
Sale of Remaining 65% of Enron Nigeria Barge Ltd.	Q4, 2000	\$81,013,566	\$64,069,823	\$16,943,743
Amended PPA Signing for 548 MW project	2001	\$7,500,000	\$2,000,000	\$5,500,000
Earlier of Financial Close and start of Construction of 548 MW project	2001	\$28,875,094	\$0	\$28,875,094
TOTALS FOR ALL SALES (including all Contingent Divestitures)		\$126 173 660	\$72,871,970	\$53,301,590

DEAL DESCRIPTION

Enron APACHI has entered into an amended and restated Barge Power Purchase Agreement ("Barge PPA") between Enron Nigeria Power Holding Ltd. ("Euron Nigeria"), Enron Nigeria Barge Ltd. and various Nigerian federal and state governments and the national power company (see Nigeria Barge II Dash). The capital committed by Enron for this Barge PPA, including a value of \$49.7 million for seven power barges and \$7.0 million for two gas fired combustion turbines currently owned by

Permanent Subcommittee on Investigation EXHIBIT #227b.

RCO 19929

RAC Deal Approval Sheet

Deal Name: Nigeria Power Holding Ltd. sale

RAC Deal Approval Sheet
Enron. is 5142.2 million. The original PPA, that was amended, was for 90MW with a term of three years and was signed on
December 6*9, 1999. The Barge PPA (approved by Enron's Board of Directors) covers the construction appearation of 270
MW of barge-mounted, gas-fired generation facilities for a term of 13 years, 3 months ("Barge Project"). The Barge Project is
supported by a letter of credit of \$50 million. Enron Engineering and Construction Company ("EE&CC") as entered into an
Engineering, Procurement and Construction Convact ("EPC Contract") with Enron Nigeria Barge Ltd. which includes the
construction of onshore facilities, the refurbishment, reconditioning and conversion (frequency and fuel) of 7 existing liquid
fuel fired barge mounted, combustion unribines, the construction of two power barges using combustion turbines purchased
from Enron North America and associated performance guarantees (290MW).

In addition to the Barge PPA, Enron Nigeria is scheduled to sign an amended IPP Power Purchase Agreement ("IPP PPA"), within the month, with the same counterparties. The IPP PPA covers the construction and operation of a gas fired, simple eyele, combustion turbine Power Plant, with a nominal capacity of 548MW for a term of 20 years ("IPP Project"). The IPP Project will be supported by an additional letter of credit. In addition to the Barge Project and IPP Project the PPA dated December 6, 1999, includes the right for Enron Nigeria to build a 240 km Pipeline to supply gas to the power plant ("Pipeline Project"). Project").

On December 29, 1999, Enron Nigeria Barge Holding Ltd., a wholly owned subsidiary of Enron Nigeria Power Holding Ltd., sold approximately 35% of the cash flows (value at time of transaction) in Enron Nigeria Barge Ltd.. to Ebarge, a wholly owned subsidiary of Merrill Lynch, for \$28.0 Million. This purchase price, which entitled Ebarge to a tranche of Preferred Shares and Common Shares, was funded with 25% equity (Merrill Lynch) and 75% seller-financed debt (Enron Nigeria Power Holding Ltd.). Enron AFACHI recognized \$12.5 million of pre-tax earnings in 1999 with this transaction. In June of-2000, LJM2 purchased the shares of Ebarge from Merrill Lynch. To this date, the loan between Ebarga Enron Nigeria Power Holding Ltd. (\$21.0 million principal) has accrued \$2.0 million in interest due to Enron Nigeria Power Holding Ltd.

On October 4, 2000, Enron APACHI, Enron Nigeria Barge Holding Ltd., Ebarge, Yinka Folawiyo Power (YFP) and AES Corp. (AES), entered into a transaction for the purchase and sale to AES of 100% of the shares owned by Ebarge (now the cash flows are valued at approximately 19% of Enron Nigeria Barge Ltd.), and enter into a second Share Purchase Agreement with Enron AFACHI for 100% of Enron Nigeria Power Holding Ltd. (holder of interests in Barge, IPP and ("Transaction"). This transaction: 1) elittiniated LM2 Ebarge as the shareholder of Enron Nigeria Barge Ltd. 2) significantly reduced Euron Corp.¹s exposure in Nigeria by way of equity syndication, and 3) generated cash flow and earnings in the 3rd quarter of 2000 through 2001. Exhibit II outlines the current and "new" ownership structures.

As stipulated in the Share Purchase agreement between Enron APACHI, Enron Nigeria Power Holding Ltd., and AES, two

- Purchase of 95% interest in Enron Nigeria Barge Ltd. and
 Purchase of 100% interest in Enron Nigeria Power Holding Ltd.

The sale of equity encompasses a portion of YF Power's interest in the Project Companies.

1- Purchase of 95% Interest in Euron Nigeria Barge Ltd.

The purchase of a 95% interest in Erron Nigeria Barge Ltd., will be consummated with two payments. The first installment will took place October 4, 2000. A payment of \$41.0 million was charged to AES in exchange for a 30% ownership in Erron Nigeria Barge Ltd. To achieve this, AES will entered into a Share Purchase Agreement with Ebarge (through LJM) which initiates the sale and purchase of 100% of Ebarge's shares in Euron Nigeria Barge Ltd. (Preferred A shares and Common) at a price of \$31.6 million of this acquisition price returns to LJM (through Ebarge). The remaining \$23.0 million is transferred to Euron Nigeria Power Holding Ltd, on behalf of Ebarge, for repayment of interest and principal for the seller finance loan. Subsequently, as agreed upon in the second Share Purchase Agreement between AES, Erron Nigeria Barge Holding Ltd. and Enron APACHI, the Preferred A shares newly acquired by AES from Ebarge, and the Preferred B Shares of Enron will be retired. The ordinary shares will be re-classified and new ordinary common shares issued to Enron, as agreed in the Erron Nigeria Barge Ltd. 's shareholders agreement. AES will own 30% of the ordinary shares after the restructuring and paying Enron Nigeria Barge Holding Ltd. a promote fee of \$9.785 million (of which \$1 million is paid to YFF) to purchase the additional 11% interest in Nigeria Barge Ltd..

The second installment which will increase AES' ownership in Enron Nigeria Barge Ltd. to 95% will occur upon satisfaction of the condition precedent related to the barge company transaction in the Share Purchase Agreement. There must be a reasonable likelihood of AES being well received by all parties related to the Power Purchase Agreements in Nigeria. When such an event takes place AES will pay to Enron Nigeria Barge Holding Ltd. the promote balance due and Enron's costs up to the transfer of shares. At this point Enron Nigeria Barge Holding Ltd. will have no interest in Enron Nigeria Barge Ltd.

RAC Deal Approval Sheet
and AES and YFP will be the sole shareholders (95%/5% respectively). For Enton Nigeria Barge Holding Ltd. to sell 95% of
the interest in Enron Nigeria Barge Company it must pay YFP for the option rights to 35% of a total 40% interest. This
option expires December 15, 2000. This DASH grants approval to extend this option until June 30, 2001.

September 29, 2000	
AES Payment for 30% Ownership	\$41,000,000
Less: Purchase Price to Ebarge	(\$31,600,000)
Less: Payment to YFP	(\$1,000,000)
Proceeds to Enron Nigeria Barge Holding Ltd.	\$8,400,000
Plus: Loan and Interest Paid to Enron Nigeria Power Holding Ltd.	\$23,000,000
Cash to Enron at Sept. 29, 2000:	\$31,400,000
Conclusion of Satisfactory Due	\$43,794,684
Diligence by AES	
Less: Payment to YFP	(\$22.912.257)
Proceeds to Enron Nigeria Barge Holding Ltd. at Milestone	\$20,882,427
65% of Barge Turbine and capital cost	\$63,571,775
Cash to Enron for its Sale of 100% Interest in Enron Nigeria Barge Ltd.	\$115,854,202

2- Purchase of 100% interest in Enron Nigeria Power Holding Ltd.

On October 4, 2000, in addition to acquiring up to 95% of Enron Nigeria Barge Ltd. through Ebarge and Enron Nigeria Barge Holding Ltd., AES has entered into a put-call option agreement with Enron APACHI (Share Purchases Agreement). This put-call expires December 15, 2000. This DASH grants, approval to extend this put-call until June 30, 2001. Upon the occurrence of certain conditions outlined below, AES has the option to call 100% of Enron APACHI's shares in Enron Nigeria Power Holding Ltd. at a promote price plus the pro-rated share of costs, less payment to YFP. Similarly, Enron APACHI has the option to put the same shares to AES at the same promote price subject to certain conditions as outlined below. When the conditions precedent are met and payment is made. AES is left with full ownership of Enron Nigeria Power Holding Ltd. and interest in its subsidiaries. These interests include ownership in the following Nigerian Project Companies; 80% (20% from YFP Equity through Enron) of the IPP Company, and 70% of Pipeline Project. YFP and Enron Nigeria Power Holding Ltd. have entered into a Project Development Contract (PDC) with which gives YFP the option to a call 40% interest in Enron Nigeria Barge Ltd., a 40% equity stake in Enron Nigeria IPP Ltd., and a 30% equity stake in Enron Nigeria Pipeline Ltd.

AES will be required to pay the remaining proceeds (as designated as the strike price) for 100% of Euron Nigeria Power Holding Ltd. upon reaching certain milestones as specified in the Share Purchase Agreement. For each milestone a designated monetary amount will be transferred from AES to Euron APACHI. Share will be exchanged when the first payment from AES is made. A success few will also be paid to Euron at the earlier of Financial Close and Start of Construction. The following schedule illustrates the sale of 100% of Euron Nigeria Power Holding Ltd.:

Milestone / Condition Precedent	Estimated Timing	Payment to
to Sale Amended IPP PPA Signing	October 1, 2000	<u>Enron</u> \$7,500,000 \$26,875,094
Earlier of Financial Close and Start of Construction of IPP	2001	\$25,575,034
Cash to Enron (not including capitalized costs)		\$34,375,094

Page 3

RAC Deal Approval Sheet

The all Name: Nigeria Power Holding Ltd. sale
Strategies Rationale

This traction allows Erron to achieve many of its immediate goals including cash in-flow, earnings recognition and asset divestment. This structure permits either a partial or full divestiture of the Nigerian barge project at a profit, as well as a sale of the Euron's interest in the 548 MW IPP development project and related pipeline at a gain upon satisfaction of conditions

Erron will not be required to invest any additional capital to achieve the goals of this transaction. Due to the timing of the payments there is some Nigeria risk exposure, however it is lower, and potentially significantly lower than at present. All capital costs incurred before sell down will be recovered in full as the payments under the Shar Purchase Agreement represent promote fees.

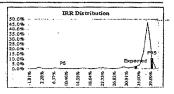
TRANSACTION SOURCES AND USES OF FUNDS (000) (Assumes closure of all contingent transactions)

Sale of shares	<u>Sources</u> \$127,230	Enron Corp advances	<u>Uses</u> \$127,230
Total	\$127,230		\$127,230

RETURN SUMMARY (existing 270 MW barge IPP)

Probabilistic DCF by Component	Cumulative IRR		PV @ 29.5% Capital Price
Cash Outflows + Outstanding	NA	5	(80.800)
Fees	-100.00%	\$	
Ongoing Cash Flows	34.38%	\$	94,247
Terminal Value	34.52%	\$. 917
Total	34.52%	\$	14,365

0.358



Given the time frame for closing this transaction, RAC has not been given the time to rerun the probabilistic model on the existing 270 MW. RAC has not been presented models on the new 548 MW IPP, or a model on the pipeline.

The barges have been valued at their capitalized cost to Enron. The discount rate of 29.05% was based on a blending of Nigerian sovereign risk with partial benefit for the LC covered portion of the investment. The Nigerian sovereign spread over equivalent Treasuries was 32.55%, equivalent to a weak CCC- rated bond.

A CCC bond has an implied 44% likelihood of default exists over the contract life. Given the CCC- credit profile of the sovereign risk, the default risk is greater than 44%. The model assumes that upon default the LC is drawn and the barges are recovered and sold within a five-year time frame at 50% of book value.

Not including the time value of money, and if the two-step sale of the barge IPP project is completed, the 270 MW barge IPP will yield an accounting gain of \$25.42 million exceeds the \$14.37 million in NPV from the June, 2000 DASH. This assumes the option which AES holds for the second stage 65% total purchases is executed.

This return summary does not reflect any gain on sale of the 548 MW powerplant and related pipeline project. Upon satisfaction of conditions precedent, the gain on these sales is expected to be approximately \$10.9 million.

TRANSACTION UPSIDES/OPTIONALITY

EXIT STRATEGY

N/A

Page 4

RC0 19932

RAC Deal Approval Sheet MILESTONES

Deal Name: Nigeria Power Holding Ltd. sale

December 15, 2000 - Purchase of remaining 65% and execution of new PPA December 31, 2001 - Financial Close and start of Construction of 548 MW IPP

RISK MATRIX (Maximum 5)

DESCRIPTION	MITIGATION/COMMENTS
Credit Risk of Counterparty - payment of the on- going obligations from the AES Project Company	The AES Corporation will issue a corporate guaranty. They are rated BB/Ba1.
Non-signing of amended IPP PPA	Negotiations have been completed and there are no outstanding issues. The signing is scheduled when Chairman of Nigeria Technical Board, Liyel Imoke returns to Abuja.
Neither Financial Close or Start of Construction of IPP Project is met	ENE has sold down 30% of the Barge Project and a portion of the IPP. This covers most of ENE's exposure irrespective of final payment

KEY SUCCESS FACTORS

	NA	Poor	Fair	Good	Very Good	Excellent
Core Business				X		
Strategic Fit				X		
Upside Potential				X		
Management	X	1				
Risk Mitigation	A110, 114					X

OTHER RAC COMMENTS:

RAC has not been presented sufficient time to rerun the model on the 270 MW barge IPP project, nor were models presented on the 548 MW IPP and 240 km pipeline project. Thus, RAC's analysis is limited to an accounting analysis of undiscounted cash flows. The first transaction at closing, the sale of 30% of the barge IPP and recasting of the YFP option, yields a cash profit of \$1.98 million. Should AES complete its due diligence and gain additional commercial combination theorem their option to purchase the remaining 65%, APACHI would realize a \$16.94 million profit. While not taking into account the time value of consideration, completion of these two transactions could total \$18.92 million versus the \$14.37 million value RAC derived in June. This comparison does not take into account the offsetting value of the option AES will hold for the second-round 65% purchase.

The amended PPA signing is expected in early 2001, which would yield an additional \$5.5 million gain. Should the 548 MW IPP reach the earlier of financial close or start of construction, Euron stands to gain another \$28.88 million.

Despite the short period to analyze this transaction, RAC is supportive based on the reduction of the significant Nigerian country risk (which caused RAC to recommend not proceeding with the additional barge investment in June), the positive accounting earnings, and cash generated from this sale.

RAC Deal Approval Sheet		Deal Name: Nigeria Power Ho	lding Ltd. sale
APPROVALS	Name	Signature	Date
Originator	Sean Long	The	/Nov 2000
Legal	Yao Apasu	2	
Regional Management	Rebecca McDonald/Jim Hughes	Libera Mc Smell	// .
RAC Management	Rick Buy/Dave Gorte	Audi Big	MI Nevente 30
Enron Global Finance	Andy Fastow/Ben Glisan	Bank.	Nog 14,00
Office of the Chairman	Jeffrey Skilling/Joe Sutton	Ch K Ship	11/14/10
		1	17

RAC Deal Approval Sheet		Dezi Name: Nigeria Power Hob	ding Ltd. sate
APPROVALS	Name	Signapare	Date
Originator	Sean Long	ATA	/No. 2000
Legal	Yao Apasu	Thoosy	
Regional Management	Rebecca McDonald Jim Bughes		
RAC Management	Rick Buy/Dave Gorte		
Enton Global Finance	Andy Pastow/Ben Glisan		
Office of the Chairman	Jeffley Skilling/Joe Sutton	-	

			-

Page 6

RAC Deal Approval Sheet

Deal Name: Nigeria Power Holding Ltd. sale

EXHIBIT I

GAIN CALC	ULATION		
	Total Basis (From Balance Sheet at Transaction)	63,955	
	LJM Basis (From Balance Sheet at Transaction)	15,324	18.62%
	Basis Enron Barge Holding	48,631	
	Percent Alocated to Enron Barge Holding Shares		81%
	Sold to AES		30.00%
	Amount in EBarge		18.62%
	Amount Allocated to "New Shares"		11.38%
	NEW ENE BARGE HOLDING PERCENT:		70.00%
	Percent of Enron Shares:		14.0%
	Promote:		8,400
	Basis		6.802
	Gain:		1,598

ENRON N	IGERIA	BARGE	LIMITED	
BALANCE S	HEET AS	AT SEPTI	EMBER 29	2000

		ESTIMATED	
	Sept. 29, 2000	Oct. 2000	1
Assets:	Adi, Bal	Adl. Bal	
Fixed Assets - Barges	56,800,000.00	56,800,000.00	
Capitalized Work in Place	7,154,757.23	41,002,730.03	1
Inv. In Subsidiary	0.00	0.00	
Other Cur. Assets	0.00	0.00	1
A/R-Intercompany	0.00	0.00	
N/R-Intercompany	0.00	0.00	
Liabilities	!		
A/P-Intercompany	0.00	0.00	ŀ
N/P-Intercompany	0.00	0.00	ı
Other Cur. Liabilities	0.00	0.00	
Net Assets	63,954,757.23	97,802,730.03	1 :
Shareholder's Equity			ł
AES Common	22,126,146.68	32,280,538.52	
ENE Barge Hold, Common	41,828,610.55	60,632,055.01	1
YFP Common	0.00	4,890,136.50	Г
Retained Earnings	0.00	0.00	
	1		1

PRE-RESTRUCTURING

Common Stock	0.00
Preferred Stock	80,563.95
Additional PIC	48,550,193.28
Retained Earnings	0.00
Minority Interests	15,324,000.00

33,847,972.80 (Additional CAPEX EQUITY)

Gain Calculation (BARGES 65% SALE)

63,954,757.23 97,802,730.03

arges/Turbines and Dev. Costs)

NOTE: Barges and Turbines are purchased at NO gain (at cost

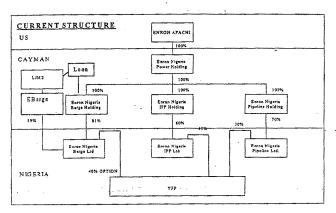
Page 7

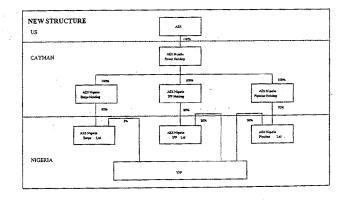
RCO 19936

RAC Deal Approval Sheet

Deal Name: Nigeria Power Holding Ltd. sale

EXHIBIT II





Page 8

RCO 19937

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Valenti, Joseph S (IBK-NY)

From: Sent: To: Subject:

Toone, Kira (IBK-NY) Thursday, June 15, 2000 8:46 AM Valenti, Joseph S (IBK-NY) RE:

What is LJM2 and how long will it take for them to buy us out with capital calls? I assume interest will continue accruing to ML IBK positions until they are fully bought cut. Also, I believe we would want to change the directors at that time(once ownership transfers) if ML IBK positions will no longer have an interest in Eberge, LLC. As you mentioned in your e-mail to Gary is Jim Brown and also is Alan Hoffman aware of this arrangement? Please advise.

Regards, Kira

Criginal Message—
Transi, Janesh S (BK-NY)
Yalland, Joseph S (BK-NY)
Serti: Wadnesday, June 14, 2000 8:06 PM
Catifit, Gary (Birk-NY); DeBollis, Michael (BK-NY); Haugh, Garard (BK-NY)
Poly. Iris (BK-NY); DeBollis, Michael (BK-NY); Haugh, Garard (BK-NY)

Gary:
This is kind of interesting, Look at slide "Barge%2BSlide.pt" below, it appears that the way we are getting out of the Enron investment on MLIBK Positions books (\$7.0m + interest) is having LJM2 Co-Investment LP buy us out through LP Capital Calls, in which MLIBK is also a limited partner. On one hand we get our money back, on the other we will make a prorate investment back into LJM2 which will invest. I guess this also means that the employee syndication will also put funds up for its prorate share as well.

Does Jim Brown know about this ?

Lets discuss

Attached is a cover letter and over views on seven new investments. If you have any questions please feel free to contact me at 713-345-5867.

<< File: -6557897.doc >> << File: advisory committe slide.ppt >> << File: Barge%2BSlide.ppt >> << File: BlueRidge_AdvComm.ppt >> << File: coyotesp.ppt >> << File: raptor2.ppt >> << File: tnpcsumm.ppt >> << File: -2189312.ppt >>

Permanent Subcommittee on Investigation EXHIBIT #229

Timeline of Pertinent Information Ebarge, LLC

(I) Investment and APR information	Date(s) Dec 21 & 23 1999
(2) Minutes of MLIBK to form and capitalize Ebarge, LLC (\$7M).	29-Dec-99
(3) Engagement letter with Enron - to A. Fastow from J. Brown (\$250,000)	29-Dec-99
(4) \$7M equity investment by MLIBK to capitalize Ebarge, LLC	30-Dec-99
(5) Ebarge, LLC financials and workpapers as of :	· 31-Dec-99
(6) MLIBK consent to re-domicile Ebarge, LLC in the Caymans	February 2000
(7) Share Purchase Agreement between MLIBK and LJM-2 Ebarge, LLC for \$7,525,000.	29-Jun-00
(8) Receipt of cash into MLIBK Positions, Inc and RTS summary	29-Jun-00
(9) Ebarge, LLC financials and workpapers as of: (a)	29-Jun-00
(10) Ebarge, LLC Register of Officers and Directors	

(a) Records are then forwarded to Whitman Breed to forward on to Euron.

Please note: any unsigned MLIBK consents or minutes in this package should be executed in the OGC files.

Permanent Subcommittee on Investigations EXHIBIT #230

SUMMARY OF MERRILL LYNCH ENRON-RELATED
INVESTMENT BANKING COMPENSATION (BY BUSINESS SEGMENT)
YEAR
ADVISORY
ADVISORY
ADVISORY

Permanent Subcommittee on Investigations
EXHIBIT #231

Hogan, Mark (PBS - NJ)

From:

Sent:

To:

Cc:

Fox, Paul (CICG NY-GLS)
Friday, June 09, 2000 6:37 PM
Chapin, Samuel; DeVito, Mark; Fox, Paul; Kaplan, Todd; Lyons, Robert;
Yang, John
Brisson, Nell; Browning, Karen; Dardano, Ray; Feeley, Carol; Hogan,
Mark; McClave, Norman; Mcgillicuddy, Sheila; Rooney, John; Siegel,
Harold; Swadba, John; Wood, Paul

Subject:

LJM2

Gentlemen.

The Committee is being asked to consider a \$10MM share of a \$65MM 364-day liquidity facility for the LJM2 Co-Investment I.P. LJM2 is a Delaware limited partnership organized by the CFO of Enron to make private equity investments in the energy and telecom sectors. The primary source of deal flow for the partnership will be Enron however Enron nor any of its subsidiaries will issue any guarantees with respect to the financial performance or minimum net worth of the Fund.

Merrill Lynch's private equity group acted as placement agent for LJM2 and generated \$4.8MM in fees in 1999. It is expected that there will be a LJM3 for which there is a high likelihood that Merrill will act as placement agent.

I have spoken with MLBUSA and the initial read is that due to the lack of a rating and nature of the borrower this would not be a strong candidate for the Bank.

Please respond with your Yes/No vote at your earliest convenience. Additionally, should you have any questions or need further information please do not hesitate to contact me.

Thank You

Paul



Permanent Subcommittee on Investigation EXHIBIT #232

Merrill Lynch Debt Markets Request to Add a Company to ML Bank USA

Company: LJM2	
Ratings (ST/LT): N/A	Date Submitted: June 6, 2000
IBK RM: Robert Furst	Amount Requested: \$10 MM
CMS Coverage: N/A	
Historical Relationship w/Company: LJM2 which was raised by Andy Fastow, the CFO of Enro Private Equity Group acted as the placement agent fund, ML has had a significant investment banking the past several years.	on Corp. (ENE). Merrill Lynch's for LJM2. In addition to raising th
Timing of: Chase Securities fully underwrote the 1999. They are now syndicating the facility out to oresponse as soon as practical.	\$65 MM facility on December 22, other banks. They have asked for a
Total Revenue for ML in 1999: \$4.8 MM from	LJM2, \$26.7 MM from Enron
Anticipated Future Revenue: \$5 MM from LJ \$10-15 MM per year	M3 (see below) r in fees from Enron Corp.
Will ML Have the Opportunity to Generate Yes	Future Incremental Business:
(elaborate on future revenue figures): It is a raise an additional fund (LJM3) for which ML has placement agent. Also, Merrill Lynch has historica profitable relationship with Enron Corp. Committ ML's relationship with Andy Fastow, and assist MI banking opportunities with Enron. Enron is very a markets. ML is currently engaged to assist Enron generation assets in Asia. Additionally, ML is completed on June 15, 2000.	a high likelihood of acting as illy maintained a steady and ing to this LJM2 facility will build in securing future investment ictive both in the capital and M&A with the purchase of the Sithe
Committee Response: Date	Accept Decline
Committee Rationale:	
	MS 16666

Hogan, Mark (PBS - NJ)

From: Sent:

To:

Fox, Paul (CICG NY-GLS)
Friday, June 16, 2000 2:21 PM
Chapin, Samuel; DeVito, Mark; Fox, Paul; Kaplan, Todd; Lyons, Robert;
Yang, John
Furst, Robert (IBK-DAL); Brisson, Neil; Browning, Karen; Dardano, Ray;
Feeley, Carol; Hogan, Mark; McClave, Norman; Mcgillicuddy, Sheila;
Rooney, John; Siegel, Harold; Swadba, John; Wood, Paul
FW: LJM2 Cc:

Subject

Gentlemen,

It is clear that this name will not work in the MLBUSA and Norm McClave has explored the possibility of placing it in ML International Private Finance but to no avail. I need to get back to Rob Furst (the RM) with an answer so that he can get back to Enron.

I look for the guidance of your collective wisdom to resolve this issue.

Thank You

From: Sent: To: Co:

36—

Friday, June 99, 2000 6:37 PM

Friday, June 99, 2000 6:37 PM

Chapin, Samuel; DeVito, Mark; Fox, Paul; Kaplan, Todd; Lyons, Robert; Yang, John

Brisson, Nat; Browning, Karen; Cardano, Ray Feeley, Card; Hogan, Mark; McClave, Norman; Mcgillicuddy, Shella; Rooney, John; Siegel, Harold; Swedba, John; Wood, Paul

LIM2

Gentlemen.

The Committee is being asked to consider a \$10MM share of a \$65MM 364-day liquidity facility for the LJM2 Co - Investment LP. LJM2 is a Delaware limited partnership organized by the CFO of Enron to make private equity investments in the energy and telecom sectors. The primary source of deal flow for the partnership will be Enron however Enron nor any of its subsidiaries will issue any guarantees with respect to the financial performance or minimum net worth of the Fund.

Merrill Lynch's private equity group acted as placement agent for LJM2 and generated \$4.8MM in fees in 1999. It is expected that there will be a LJM3 for which there is a high likelihood that Merrill will act as placement agent.

I have spoken with MLBUSA and the initial read is that due to the lack of a rating and nature of the borrower this would not be a strong candidate for the Bank.

Please respond with your Yes/No vote at your earliest convenience. Additionally, should you have any questions or need further information please do not he

Thank You

Paul



Hogan, Mark (PBS - NJ)

From: Sent:

Hogan, Mark (PBS - NJ) Friday, May 18, 2001 10:57 AM Wood, Paul (Corp Credit - NY) FW: LJM2

Subject:

-Original Mes

Ige—
DeVito, Mark (CICG-CAPMKTS)
Monday, June 12, 2000 4-01 PM
Chapin, Samuel R (BK-NY; McClave, Norman (Corp Credit = NY); Fox, Paul (CICG NY-GLS)
Lyoras, Robert (CICG-CAPMKTS); Yang, John F. (CICG NY-GLS); Dardano, Ray (PBS - SLC); Hogan, Mark (PBS - NJ);
Swadba, John (Corporate Risk Management); Wood, Paul (Corp Credit - NY)
RE: LJM2 I agree also...However, this should be evaluated by Jack yang's area given the significance of the overall business relationship and the going forward private equity opportunities....Mark,

I agree. Sam

I have confirmed that this would be well outside our mandate, and therefore will not be a candidate for the Bank to take.

Gentlemen,

The Committee is being asked to consider a \$10MM share of a \$65MM 364-day liquidity facility for the LJM2 Co - Investment LP. LJM2 is a Delaware limited partnership organized by the CFO of Enron to make private equity investments in the energy and telecom sectors. The primary source of deal flow for the partnership will be Enron however Enron nor any of its subsidiaries will issue any guarantees with respect to the financial performance or minimum net worth of the Fund.

Mertil Lynch's private equity group acted as placement agent for LJM2 and generated \$4.8MM in fees in 1999, it is expected that there will be a LJM3 for which there is a high likelihood that Mertill will act as placement agent.

I have spoken with MLBUSA and the initial read is that due to the lack of a rating and nature of the borrower this would not be a strong candidate for the Bank.

Please respond with your Yes/No vote at your earliest convenience. Additionally, should you have any questions or need further information please do not hesitate to contact me.

Thank You

Paul

<< File: LJM2 selection form.doc >>

Interoffice Memorandum

To: Tom Davis

From: Ben Sullivan

Schuyler Tilney Robert Furst

Merrill Lynch

Date: July 7, 2000

Subject: Request for an Exception to Policy for a \$10MM Loan commitment to LJM II

Background

LJM II is a private equity partnership managed by Enron's CFO, Andrew Fastow. The fund's mandate is to invest in Enron's Merchant banking transactions. We raised \$392 million for Mr. Fastow.

Mr. Fastow has asked Merrill Lynch to participate in a \$65 million loan facility for the fund lead by Chase.

We respectfully request an Exception to Policy so Merrill Lynch can participate in this loan for the following reasons:

Enron is an excellent client.

540MM in revenue for 1999
520MM in revenue for 2000 year to date
Andy Fastow is in an influential position to direct business to Merrill Lynch.
LJM II will raise its second fund next year and we have an excellent chance of raising money for this fund.
Capitalize on successful momentum with Enron (Niguria Barges, Electricity Swap, LJM II fund raising).

It would be most helpful to have closure on this issue by July 11th.

cc: Dan Bayly

Permanent Subcommittee on Investigations EXHIBIT #233

Browning, Karen (Corp Credit - NY) Tuesday, November 27, 2001 11:00 AM Yang, John F. (CICG NY - GLS) RE: LJM - updated summary From: Sent: To: Subject:

The concern on the part of the banks is that the whole Enron situation, including all the lawsuits, could somehow cause us to end up on the short end of the stick between now and maturity date. They all committed to this loan, as did we, because of the Andy FastowEnron relationship and now that Fastow is definitely gone, and Enron most likely gone as well, they have no patience for waiting around to get their money back. They, in fact, want the attornies to try and come up with an immediately EOD, notwithstanding the fact that we've aiready had a default and will be in an EOD situation on Jan. 22. They don't seem likely at this point to agree to the waiver request.

There is a conference call among the banks and our attornies scheduled for this Thursday at 10 am. I am assuming Carol Feeley and Mike Mingione will participate, along with Dmitry and me.

Karen

From: Sent: Ta: Subject:

request seems pretty good, is there a better outcome here? other than default/acceleration and forced repayment?

-Original Message

Grant Message—
From: Browning, Karen (Corp Credit - NY)
Sent: Monday, November 26, 2001 i.:30 PM
To: Yang, John F. (CLCS NY - GL5)
Cc: Baron, Dmirry (Corp Credit - NY)
Subject: RE: LJM - updated summary

66 2/3% required (Dmitry, pls. confirm). Yes, facility will be reduced & become a term loan.

— Original Message — John F. (CICG NY - GLS)
From: Yang, John F. (CICG NY - GLS)
Sent: Manday, November 26, 2001, 12:3 PM
Tot: Browning, Karen (Carp Credit - NY)
Subject: RE: LJM - updated summary

is the waiver a 100% vote? and ldf i understand this right the total facility will be reduced to \$55mm(the 70mm funded less the 15 mm cash repayment?)

geBrowning, Karen (Corp Credit - NY)
Monday, November 25, 2001. 1:07 PM
Monday, November 25, 2001. 1:07 PM
Federy, Card (CCGS NY - GLS); Minglane, Michael (Corp Credit - NY); Lurie, Michael (Corp Credit - NY); Dolart,
Gary (CGC); Fotak, Zoran (Global Debt Markets); Alini, Eric (CCCG - NY Mortgages); Yang, John F. (CICG NY GLS)
Barcn, Drukty (Corp Credit - NY); DiMassimo, Vincent J. (Corp Credit - NY); Mariarty, Edmand N (Corporate Risk
Management)
FW: LIM - updated summary

Cc

As there have been many opinions expressed as to how we aggressive we should appear during the LJM2 loan negotiations, I am forwarding Dmitry's update of this situation as background. I second Carol Feeley's request that we have a conference call this afternoon to discuss.

Baron, Dmitry (Corp Credit - NY) Monday, November 25, 2001 12:56 PM Browning, Karen (Corp Credit - NY)

Permanent Subcommittee on Investigations EXHIBIT #234

Interoffice Memorandum

To: Chris Birosak

Merrill Lynch

From: Robert Furst

At: Merrill Lynch IBK Dallas

Tel: 214-849-5350 Date: February 7, 2001

Subject: Enron

In 2000, Enron completed 52 transactions for \$19 billion of financings - \$16 billion of this was structured paper. ML recently lost the mandate to underwrite \$1.25 billion of zero coupon convertible debt because Enron does not believe ML is a financial partner. CSFB, Chase, Citigroup and Bank of America all have in excess of \$1.0 billion of exposure to Enron. This is our competition. SSB received the LYON mandate.

An example of an Enron deal:

Enron established a joint venture with CalPERS in 1994 to pursue energy investments. CalPERS contributed \$250 million in cash and Enron contributed \$250 million in Enron unregistered common stock. In 1998, Enron purchased CalPERS interest for approximately \$400 million dollars. Enron approached CSFB to participate with Barclays in a \$320 million bank facility. The collateral package included various interests in public and private energy companies and Enron stock valued at \$500 million. Enron syndicated the facility with a targeted hold for CSFB and Barclays at \$40 million, which was completed in three months after funding. The facility was not Enron credit but had a trigger whereby Enron had to purchase subordinated partnership units for cash if asset coverage ratios were not met subject to a monthly test. While CSFB has protected itself with credit default derivatives, other institutions have opted to help Enron with syndication, then sell their participation in the secondary loan market. (DLJ and BT Alex Brown have successfully implemented this strategy.) Recent conversation with CSFB indicates most of their positions could be sold for 98.5% to 99.25% of commitment amount.

Merrill Lynch has decided to help Enron underwrite and syndicate these types of deals. The objective today is to assemble the team to execute these deals.

ermanent Subcommittee on Investigations
EXHIBIT #235

From: Sent: To: Kulick, Adam (CAPMKTS) Wednesday, July 11, 2001 5:05 PM Lyons, Robert (CICG - CAPMKTS) Enron - rawhide

Subject:

Fyi - please see the note below. so now we either say no or say yes and get it approved using schuylers credibility. If we say no, I think we should cushion the blow with the offer of the larger facility and wrap it in to a bigger picture quid pro quo conversation. What do you think?

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

——Original Message——
From: Bellissimo, Dean (CICG - NY SWAPS) <D_Bellissimo@ml.com>
To: Diehl, Bowen (IBK-DAL)

- Swapen, Bellissimo, Dean (CICG - NY SWAPS) <D_Bellissimo@ml.com>; Kulick, Adam (CAPMKTS) <AdamK@exchange.ml.com>; Furst, Robert (IBK-DAL)

- Frurst@exchange.ml.com>
Sent: Wed Jul 11 15:59:13 2001 .
Subject: Rawhide

I just heard back from James and he told me that Enron will definitely not tie our loss to new business. He's looking for us to give a final answer on the deal by the end of the day, as he will have to go back to all the banks in the facility within a week.

Dean

Permanent Subcommittee on Investigations
EXHIBIT #236

From: Sent: To: Cc: Subject:

Baron, Dmitry (Corp Credit - NY) Monday, July 16, 2001 9:58 AM Diehl, Bowen (IBK-DAL) Browning, Karen (Corp Credit - NY); Furst, Robert (IBK-DAL) RE: LJM2 / Enron

Allen got back to me saying that he was not involved at all in this transaction. I would really appreciate your help in getting some more information about this exposure. Thanks a lot

Dmitry

---Original Message---From: Diehl, Bowen (IBK-DAL)
Sent: Friday, July 13, 2001 6:42 PM
To: Baron, Dmittry (Corp Credit - NY); Custard, Allen (IBK-NY)
Cc: Browning, Karen (Corp Credit - NY); Furst, Robert (IBK-DAL)
Subject: RE: LJM2 / Enron

Allen, can you provide any insight here?

As far as selling, we took a substantial P/L hit for selling Zephyrus, not something we want to repeat if possible

bowen

Bowen S. Diehl Vice President Merrill Lynch & Co IBK - Dallas 200 Crescent Court, Suite 550 Dallas, Texas 75201

214-849-5360 214-849-5399 214-693-5317 ph: fx: cel:

Subject: LJM2 Importance: High

Bowen, Allen, it came to our attention that we don't have much information on LJM2's loan. Do you know who would be the best person to talk to about it to see what the situation with their investments is (it's a fund set up by Enron's CFO to invest in telecommunication and energy projects). Also, it would be interesting to find put what the price of this loan on sec. market is and why ML does not consider a strategy to sell our participation down (as we are doing w/Zephyrus). Thanks a lot for your help.

Best regards,

Dmitry Baron Energy/Corporate Credit Risk Management 212 236-5557

MS 16908

Permanent Subcommittee on Investigations EXHIBIT #237

From:

Sent

To:

Browning, Karen (Corp Credit - NY)*
Tuesday, December 04, 2001 8:51 AM
Alini, Eric (CICG - NY Mortgages); Cox, Kevin (Corporate Risk Management); Moriarty,
Edmond N (Corporate Risk Management); Chandler, Jeff (Debt eCommerce); Fotak, Zoran
(Global Debt Markets); Yang, John F. (CICG NY - GLS)
Woodward, Natalia (Corp Credit - NY); DiMassimo, Vincent J. (Corp Credit - NY); Lurie,
Michael (Corp Credit - NY)
RE: Structured loan transactions

Cc:

Subject:

the 3 Funding loans are Master Lease transaction (Jim Brown) utility subsidiary bridge loans. These facilities are approved by the Lease Investment Advisory Committee.

----Original Message—
From: Alini, Eric (CICG - NY Mortgages)
Sent: Tuesday, December 04, 2001 11:03 AM
To: Cox, Kevin (Corporate Risk Management); Browning, Karen (Corp Credit - NY); Morfarty, Edmond N (Corporate Risk Management); Chandler, Jeff (Debt eCommerce); Fotak, Zoran (Global Debt Markets); Yang, John F. (CICG NY - GLS)
Subject: Structured loan transactions

As a follow up to the sunday call, a snapshot of the structured loans in the portfolio are as follows

.

22.5mm

zephyrus Ijm2 mighty oak Us bancorp synthetic lease

9.8 mm 40mm 25mm

names which we do not recognize which are listed on the all loans report are:

LMB funding Outwater funding surfside funding

given the sometimes cryptic names used by the transactions, are there any others which should be included which we

as discussed if u would us to undertake a underwrite/review, identify risks and suggest hedging strategies, pis let me know.

thanks eric

Permanent Subcommittee on Investigation

EXHIBIT #238

Interoffice Memorandum

To: Herb Allison

Att New York

om: Rick Gordon

Schuyler Tilney Houston

At: Houston Tel: 713/759-2510/2530 Date: April 18, 1998



Subject: Enron Common Stock Offering

We are requesting that you call the two senior executives of Enron – Ken Lay, Chairman and Chief Executive Officer, and Jeff Skilling, President and Chief Operating Officer – regarding Merrill Lynch's participation in Enron's contemplated \$750 million common stock offering. Ken Lay will be in his office in Houston at about 8:30 a.m. CDT while Jeff Skilling will be in his office at approximately 11:00 a.m. CDT. Ken's telephone number is 713/853-6773, and Jeff's is 713/853-6894.

Background of Transaction

Enron was notified approximately six weeks ago by Moody's Investors Service that it is considering downgrading Enron's debt due to the increase in the Company's leverage over the past few years. After several meetings with Moody's to better understand its concerns, Enron determined that it needed to undertake a large common stock offering to avoid a credit rating downgrade. The Company is extremely sensitive with regard to confidentiality concerning this transaction (past equity offerings undertaken by the Company have been leaked in advance of the offerings, with negative consequences to the stock price); therefore, Enron solicited advice from only Merrill Lynch regarding size and terms of and market receptivity to the offering. We were obviously apprised of the transaction in the strictest confidence and were informed that no other investment banks would be contacted in order to lessen the likelihood of a leak.

In connection with our dialogue with Enron on the offering, we obviously stressed not only our strong desire but also our unique qualifications to serve as lead manager. This role was actively supported both by Enron's senior finance staff (for whom we have successfully executed several large-sized debt offerings in recent months) and its corporate development group (for whom we were are presently engaged to execute a \$1 billion divestiture of their electric generation assets). However, our research relationship with Enron has been strained for a long period of time. Our equity research analyst on Enron is John Olson. He has a poor relationship with Jeff and, particularly. Ken, for several reasons. First, John has not been a real supporter of the Company, even though it is the largest, most successful company in the industry. Second, Enron views his research as flawed, particularly as it relates to a valuation of at least certain of its businesses (e.g., retail marketing). Finally, John often makes snide,

Permanent Subcommittee on Investigation
EXHIBIT #239

and potentially embarrassing remarks about the Company in meetings with analysts while in the presence of Ken and Jeff.

Recent Developments

Enron's Chief Financial Officer, Andy Fastow, called last night to inform us that Merrill Lynch would not be selected as lead manager of the offering and, further, that we would not even be included as a co-manager. He stated that the decision was based solely on the research issue and was intended to send a strong message as to how "viscerally" Enron's senior management feels about our research effort. He also stated that inclusion of Merrill Lynch in the offering would effectively constitute an endorsement of Olson's valuation methodology of the Company, and, in particular, of his negative valuation of Enron's burgeoning retail electricity and gas business. Importantly, Enron management believes that the success of its common stock offering will be tied to the successful sale of the retail electricity and gas story. Andy further stated that Enron management did not wish to harm its investment banking relationship with Merrill Lynch and that Enron would make a point of compensating us on other transactions; however, their decision on this stock offering has been made solely on the basis of research coverage (DLJ, whose top-ranked analyst has Enron's stock on his recommended list, will lead the offering and all of the co-managers have Buy ratings on Enron).

Purpose of Your Call

We would appreciate you calling both Ken and Jeff in an attempt to have Merrill Lynch inserted as a co-manager. Your call should focus on Merrill Lynch's longstanding relationship with the Company (see below for detail) and our support of the Company through a wide variety of transactions over many years. While you should probably acknowledge our difficult research relationship, you might also point out that Olson has at least been more positive on their stock in recent months (Olson currently rates the stock a 3-1).

History of the Relationship

Enron was formed in 1985 from the merger of two large pipelines, InterNorth and Houston Natural Gas. We advised Houston Natural Gas (of which Lay was the CEO) on the transaction while we were at First Boston. Since such time, we have executed numerous transactions for Enron and have been one of the Company's lead investment banks, including acting as lead manager for their last common stock offering in 1992 (again while at First Boston)

For this reason as well as our leadership position in the natural gas industry, exclusion of Merrill Lynch from this transaction would be quite negative to us as well as detrimental to the Company in terms of transaction execution.

cc: Tom Davis

Dan Bayly Brian Hehir From:

Tilney, Schuyler (IBK-HOU) Monday, January 15 1999 4:02 PM Monday, January 15 1999 4:02 PM Allison. Herbert M (NY-EXE) Bayly, Daniel H (IBK-NY) Enron Account Update

Sent: To: Co: Subject:

Herb:

Thanks for your response re Baker Hughes. On a positive note, I wanted to update you on recent developments in our relationship with Enron since you spoke to their CEO, Ken Lay, last spring regarding our difficult relationship in Research It is clear that your responsive message was appreciated by the Company, and any animosity in that regard seems to have dissicated in the ensuing months. To that end, we have recently been awarded two significant mandates by Enron: the first to lead-manage the \$1.5 billion IPO of their water company (Azurk), which is expected to file in the February; and the second to raise a \$1 billion private equity fund on behalf of the parent, which is expected to kick-off in early March Total fees to Merrill Lynch for these two transactions alone should be \$45-50 million.

I wanted you to be aware of these two transactions and to thank you for your support with Ken. If it wouldn't be too much of a burden, I might also ask you to make a follow-up call to Ken later this spring (once we see how these deals progress). I will keep you apprised on that subject.

Many thanks

Schuyler

Permanent Subcommittee on Investigations EXHIBIT #240

From:

Tilney, Schuyler (IBK-HOU) Thursday, February 11, 1999 4:26 PM Jones, Rob (IBK-HOU) RE: Enron Mandate/ Lay Letter

Sent: To: Subject:

r: excellent letter s

----Original Message---From: Jones, Rob (IBK-HOU)
Sent: Wednesday, February 10, 1999 6:51 PM
To: Allison, Herbert M (NY-EXE)
Cc: Tilney, Schuyler (IBK-HOU)
Subject: Enron Mandate/ Lay Letter

Herb-

As a follow-up to your recent discussion with Schuyler Tilney, we thought that it might be appropriate for you to send a note to Ken Lay at Enron thanking him for a recent mandate to serve as a co-manager on a 12 million share common stock offering (\$775MM). The deal is expected to price this week (maybe as soon as Thursday). As Schuyler also indicated, we are working on several other assignments which could turn out to be quite meaningful financially to Merrill Lynch. We will keep you posted. We have taken the liberty of drafting a short note for you to use or edit.

Regards, Rob << File: Herb Allison Letter.doc >>

Rob L. Jones Merrill Lynch & Co. 713-759-2545 (Tel.) 713-759-2581 (fax) rob_jones@ml.com

MS 06788

Permanent Subcommittee on Investigations EXHIBIT #241

Interoffice Memorandum

To Dan Bayly At IBK - New York

The state of the s

From: Schuyler Tilney/Rosser Newton Ben Peakes AC: Global Energy & Power - Houston Tel: 713/759-2530 2548 2547

Date: December 3, 1998



Subject: Andy Fastow (SVP & CFO of Euron) visit on December 4th

Overview

Thank you for visiting with Andy Fasiow at 10.00 a.m. on Friday, December 4th. Andy is in New York to meet with our team regarding the S1 billion equity fund Merrill Lynch is rusting for Enron. Enron will contribute 500 million to the fund, of which a portion may be in the form of Enron common stock, and institutions and Enron munagers will contribute the balance. Ben Sulltvan, David Sulltvan, Schuyler Tilney and Rosser Newton form the balance of the team on this project.

Background

Andy is a very important relationship for the firm and is principally responsible for Merrill Lynch's participation in the project. At you know, Merrill Lynch was nearly excluded from Enron's \$750 million common stock offering earlier this year, so this mandate is critical to re-igniting our relationship with Enron.

Merrill Lynch recently lead-managed an Euron debt offering as well as a STEERS offering.

The Company

Enron is among the largest energy companies and has a market capitalization of approximately \$20 billion. Enron has recently announced a number of transactions, including the acquisition of Wessex Water and of Cogen Technologies. Mertill Lynch represented the nunority stockholders of Cogen in the sale to Enron.

As you know, Enron is one of the most critical relationships in the Houston office and the largest company based in Houston. We have had a close relationship with them for many years and it would be helpful if you could acknowledge our appreciation for this longstanding relationship during the course of the conversation.

Permanent Subcommittee on Investigations
EXHIBIT #242



Investment Banking Group

One Houston Center 1221 McKinney Suite 2700 Houston, Texas 77010

Facsimile Cover Sheet

To: Andrew Fastow & Mark Koenig

Company: Enron Corp.

Phone: 713/853-7427 / 5981

Fax: 713/646-2300 / 3002

Subject Enron Corp. Calling List

From: Schuyler Tilney

Phone: 713/759-2530 Fax: 713/759-2539

Date: April 28, 1998

3 Pages including this cover page.
(Should you have problems receiving this transmission, please contact Teresea Goodgame (713)759-2516

Andrew & Mark,

Attached is a calling list from John Olson for the Enron Corp. common stock offering as of today. We will send to you an updated list as it becomes available. Please feel free to call either myself, Rob or Adam with any questions or comments between now and the pricing.

Attention: Employee Faxing Material
This facsimile should not contain informonly. ation not for public distribution or any proprietary information deemed for internal use

Attention: Recipient of Faxed Material

The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities.

Permanent Subcommittee on Investigations EXHIBIT #243

As of 04/28/98 at 5:38 PM

John Olson - Enron Call List

	Name	Company	Comments
1	Ray Chan	Franklin Funds	Bought stock before Q1 report. May buy some more. EES valuation is an issue
2	John Gavin	AmEx - IDS	Likes story. Thinks it will be the next WMB. Is concerned about the size of the premium on Enron Energy Services (EES). Could be a buyer.
3	Dennis Walsh	Fleet Financial Group	Left Voice Mail / Enron Story
4	Larry Tedeschi	BancOne	Likes story, undecided on it. Meeting with Lou Pai on Thursday. Will decide on Friday.
5	John Lennon	Colonial Management	Likes story. Concept player will visit on Friday A.M. May buy more.
6	Dave Powers	Ohio State Teachers	Enron story & its valuations. Likes stock - will meet with Lou Pai Wednesday. Will make up mind on Friday.
7	Bruce Williams	Morgan Guaranty	Left Voice Mail /Enron Story
8	Joann Barry	Scudder Kemper	Left Voice Mail /Enron Story
9	Zia Mian	Northern Trust	Left Voice Mail /Enron Story
10	Tom Bolgart	First Star	Owns Stock/Likes story/ undecided if he will buy more. EES valuation premium is an issue.
11	Rod Mitchell	Mitchell Group	Wants to buy cheaper/He's a bargain hunter.
12	Stacy Saul	George Weiss Associates	Left Voice Mail/Enron Story
13	Peter Vig	Tiger Mgmt	Will probably pass
14	Monroe Helm	Barrow Hanley	Left Voice Mail /Enron Story
15	Gregg Winneke	USAA	Left Voice Mail /Enron Story
16	Christine Drisch	American Capital Mgmt	Doesn't own/may be interested. Asked a lot of questions.
17	James Elliot	Cowen Asset Mgmt	Left Voice Mail /Enron Story
18	Jarl Ginsberg	Provident Capital Mgmt	Left Voice Mail /Enron Story
19	Jim Boyd	Harbor Capital Mgmt	Left Voice Mail /Enron Story
20	Jim McMadden	Silcap	Left Voice Mail /Enron Story
21	John Murphy (212) 598-8104	Mitchell	Left Voice Mail /Enron Story
22	Mike Nohe	Neuberger Berman	Left Voice Mail /Enron Story
23	Tom Moore	State Street	Left Voice Mail /Enron Story
24	Barbara Friedman	John Hancock	Like the idea, will consider it. Doesn't own now.
25	Barry Allen	Putnam	Thinks price is too high. Might bite @\$44 - \$45
26	Phil Kaukkonen	Lord Abbott	Left Voice Mail /Enron Story
27	Bruce Bottomley	Sasco Capital	Left Voice Mail /Enron Story

As of 04/28/98 at 5:38 PM

28	Lisa Nurmi	Mass Financial	Left Voice Mail /Enron Story
29	John Wong	Mass Financial	Left Voice Mail /Enron Story
30	Don Kilbride	The Boston Company	Left Voice Mail /Enron Story
31	George DeLucas		Left Voice Mail /Enron Story
32	Bill Bart		Left Voice Mail /Enron Story
33	Ioel Kurth	Columbus Circle	Like Enron/owns stock. Bought in February/Will see Mgmt next Monday @ 1:00pm (deal prices that day!) could buy more.
34	Tony Giammalva	Dawson Samburg	Bought big position @\$41 - \$42. Debby Pratt has retired. Huge bull on stock. Bought more today. Will probably buy more on deal-price sensitive
35	Martin Roberts	Salomon Asset Mgmt	Will look at - May buy on weakness.



Investment Banking Group

One Houston Center 1221 McKinney Suite 2700 Houston, Texas 77010

Facsimile Cover Sheet

To: Andy Fastow & Mark Koenig

Company: Enron Corp.

Phone: 713/853-7427 / 5981 Fax: 713/646-2300 / 3002

Subject Updated Enron Corp. Calling List

From: Schuyler Tilney

Phone: 713/759-2530

Fax: 713/759-2539

Date: April 30, 1998

5 Pages including this cover page.
(Should you have problems receiving this transmission, please contact Teresea Goodgame 0713)759-2516

Andy & Mark,

Attached is an updated calling list from John Olson for the Enron Corp. common stock offering. We will send to you another updated list when it becomes available. Again, please feel free to call either myself, Rob or Adam with any questions or comments between now and the pricing.

m: <u>Employee Fazing Material</u> simile should not contain information not for public distribution or any proprietary information deemed for internal use only.

Attention: Recipient of Faxed Material
The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities.

John Olson - Enron Call List 4/29/98

4/2	4/29/98				
	Name	Company	Comments		
1	Pat Kane	Federated Research	Left Voice Mail / Enron Story		
2	John Segner	Invesco	Left Voice Mail / Enron Story		
3	Brad Evans	Heartland Advisors	Discussed Enron in detail/Not interested. Owns big position in SWN		
4	Jim Marguard	Rainier Invt. Mgmt	Discussed Enron in detail/Doesn't know story well/ But will look at it. Smart investor - likes gas commodity		
5	Brian Wall	Munder Capital Mgmt	Left Voice Mail / Enron Story		
6	Robert Leslie	Trusco Capital Mgmt	Left Voice Mail / Enron Story		
7	Leon Tsirlin	Lehman Ark Mgmt	Has sold down Enron position/No interest in the stock. Wants to move up Sonat instead		
8	Peter Viehl	Trust Company in West	Discussed Enron in detail/ Set up appt @ 10:00 am /will see Enron on Friday/e-mailed research		
9	Jim McFadden	Silcap	Discussed Enron/Will look at it/No sense of the depth of interest/		
10	Mike Custer	First Chicago - NBD	Left Voice Mail / Enron Story		
11	Kevin McCabe	Bank of New York	Left Voice Mail / Enron Story		
12	Bill Selesky	Mitchell Hutchins	Left Voice Mail / Enron Story		
13	Katie O'Conner	Bankers Trust	Left Voice Mail / Enron Story		
14	Joe Hill	Sun Trust	Discussed Enron in detail/Not interested.		
15	Brian Hannon	Delaware Mgmt.	Discussed Enron/Likes story long term/Can't get others interested/ Doesn't want to pay \$49.50/ Thinks stock could be good/Sitting on the fence post		
16	Paul Crovo	General Accident	Left Voice Mail / Enron Story		
17	Jackson Hockley	Farmers Insurance	Left Voice Mail / Earon Story		
18	Berne Fleming	IDS	Left Voice Mail / Enron Story		
19	Michael Hoover	U.S. Trust	Discussed Enron in detail/owns a piece of Enron already/May add to position/likes to buy it cheaper/ Could be a buyer. Faxed him research		
20	Martin Russell Jones	Compass Mgmt (London)	Discussed Enron story/E-mailed data/ could be a buyer.		
21	Brent Hester	T.Rowe Price	Left Voice Mail / Enron Story		
22	Diane Sobin	Chase Investor	Discussed Enron in detail, Already owns @ . \$41.00. Will visit with Ken Lay tomorrow AM/Borderline buyer.		
23	Kim Schnabel	CREF	Left Voice Mail / Enron Story		
24	Will Muggia	Westfield Capital	Left Voice Mail / Enron Story		
25	Dave Zimmerman	Loomis Sayles	Discussed Enron in detail/already owns stock/Not big position/Looks like he will sit out on deal/wait for it to come down		

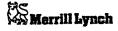
4/28/98

4/2	4/28/98					
	Name	Company	Comments			
1	James Elliot	Cowen Asset	Discussed Enron/Didn't seem too interested.			
2	Steve Pouns	Beutel Goodman	Discussed Enron/Will go to the roadshow next Monday/Luke warm to story			
3	Peter Viehl	Trust Company of the West	Left Voice Mail / Enron Story			
4	Bruce Williams	Morgan Guaranty	Discussed Enron/He likes it/But Terry Shu (Electric's) is calling the shots on Enron			
5	Terry Shu	Morgan Guaranty	Left Voice Mail / Enron Story			
6	Annie Tsao	Alliance Capital Mgmt	Discussed Enron in Detail. Annie is still up in the air. Cant tell what she is going to do.			
7	Stacy Saul	George Weiss	Discussed Enron. Wants to know it better. No clear indication.			
8	Joe Sheer	Omega Investors	Discussed Enron / Not interested/owns a lot of EOG, however. Will not be in deal.			
9	Eric Scharpf	Miller Anderson	Left Voice Mail / Enron Story			
10	Dick Koloski	Adams Express	Discussed Enron/Likes at a lower price. Owns EOG			
11	Dwight Cowden	Mellon Bank	Left Voice Mail / Enron Story			
12	Pat Kane	Federated	Left Voice Mail / Enron Story			
13	Rob Boyd	investment Counsel of Maryland	Left Voice Mail / Enron Story			
14	Bill Adams	NCNB/Boatman	Discussed Enron/ would become interested @ \$43-\$45, probably won't come in on deal			
15	Gene Gillespie	Mississippi Valley	Discussed Enron . Stock too rich - will pass.			
16	Dannette Miller	Mississippi Valley	Discussed Enron . Stock too rich - also will pass.			
17	Eric Elvekrog	Duff & Phelps Asset Mgmt	Left Voice Mail / Enron Story			
18	Jerry Jurs	Harris Trust	Left Voice Mail / Enron Story			
19	Joe Woerner	State of Wisconsin	Left Voice Mail / Enron Story. Joe will be out of the office until May 1.			
20	David Dowler	Luther King Asset Mgmt	Discussed Enron. Would be interested @ a lower price. Will go the meeting on Friday.			

32	Bill Burt		Left Voice Mail /Enron Story
33	Joel Kurth	Columbus Circle	Like Enron/owns stock. Bought in February/Will see Mgmt next Monday @ 1:00pm (deal prices that day!) could buy more.
34	Tony Giammalva	Dawson Samburg	Bought big position @\$41 - \$42. Debby Pratt has retired. Huge bull on stock. Bought more today. Will probably buy more on deal-price sensitive
35	Martin Roberts	Salomon Asset Mgmt	Will look at - May buy on weakness.

Investment Banking Group

One Houston Center 1221 McKinney Suite 2700 Houston, Texas 77010



Facsimile Cover Sheet

To: Andy Fastow & Mark Koenig

Company: Enron Corp.

Phone: 713/853-7427 / 5981 Fax: 713/646-2300 / 3002

Subject Final Enron Corp. Calling List

From: Schuyler Tilney

Phone: 713/759-2530 Fax: 713/759-2539

Date: May 4, 1998

7 Pages including this cover page.
(Should you have problems receiving this transmission, please contact Teresea Brooks at (713)759-2516

Andy & Mark,

Attached is the final calling list from John Olson for the Erron Corp. common stock offering. Please feel free to call either myself, Rob or Adam with any questions or comments between now and the pricing.

Attention: Employee Faxing Material
This facsimile should not contain information not for public distribution or any proprietary information deemed for internal use only.

Attention: <u>Recipient of Faxed Material</u>
The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities.

John Olson - Enron Call List 5/1/98

31 3	170		
	Name	Сотрапу	Comments
1	Paul Scoville	Carl Domino	Discussed Enron in detail/not interested
2	Jim Carroll	Loomis Sayles	Left Voice Mail / Enron Story
3	Annie Tsao	Alliance Capital	Sending her more information
4	Joe Hill	Sun Trust Mgmt	Discussed Enron (again)/Still not a buyer
5	Annie Tsao	Alliance Capital	Left voice mail more enron details
6	Sheldon Simon	Putnam	Discussed Enron/Coming into office at 2:00 pm /already owns stock/will decide after listening to story.
7	Pat Kane	Federated	Left Voice Mail / Enron Story
8	Bill Patzer	MLAM	Left Voice Mail / Enron Story
9	Walter Rogers	MLAM	.Left Voice Mail / Enron Story
10	Claude Cody	MIA	Discussed Enron/will pass/ thinks its fairly valued
11	Frank Gallagher	Catalyst Fund	Discussed Enron / Not interested
12	Yasha Gofman	Dodge & Cox	Left Voice Mail / Enron Story
13	Jack LeVande	Ark Asset Mgmt	Left Voice Mail / Enron Story
14	Sunita Singh	Fiduciary	Left Voice Mail / Enron Story
15	Tom Musick	John Mestay	Left Voice Mail / Enron Story
16	Pat Rowles	Kempner Investment	Discussed Enron/Not interested
17	Harry Flavin	Austin Calvert	Discussed Enron/Somewhat interested/was going t meeting
18	David Ginther	Waddell & Reed	Left Voice Mail / Enron Story
19	Monroe Helm	Barrow Hanley	Left Voice Mail / Enron Story
20	David Jordan	Fayez Sarofim	Discussed Enron in detail/Industry outlook/ Will meet on Wednesday May 13th.

4/3	4/30/98				
	Name	Company	Comments		
1	Ed Amberger	Morgan Stanley Dean Witter	Tried to leave voice mail/mailbox full		
2	Joe Klimas	State of Michigan	Discussed Enron in detail. Won't pay up. Likes low P/Es. Full in his gas positions		
3	Maura Shaunhessey	Mass financial Services	Left Voice Mail / Enron Story		
4	Sheldon Simon	Putnam	Left Voice Mail / Enron Story		
5	Steven Dray	Strong Capital	Left Voice Mail / Enron Story		
6	Glenn Johnson	First Asset Mgmt	Left Voice Mail / Enron Story/New to Group		
7	Jeff Erickson	Advantus	Left Voice Mail / Enron Story		
8	Debby Janson	Stein Roe	Left Voice Mail / Enron Story		
9	John Segner	³ Invesco	Discussed Enron in detail/Won't be in Enron deal/ Owns El Pasc, wants to buy Sonat at lower price/ trying to get him interested in Columbia (CG) and Consolidated Natural (CNG)		
10	Bob Unger	Columbia Mgmt	Left Voice Mail / Enron Story		
11	Annie Tsao	Alliance	Discussed Enron in more detail/ Seems to like the story/May have a buyer here.		
12	Jim Carroll	Loomis Sayles	Left Voice Mail / Enron Story		
13	Pat Kane	Federated	Discussed Enron/Not interested		
14	Mike Kerr	Capital	Discussed Enron in detail/Looking hard at stock/ May come in/Faxed research		
15	Berne Fleming	IDS	Discussed Enron in detail/Owns Enron/ Doesn't want more/Looking @ CNG; CGP & CG owns big. Wants more gas exposure		
16	Dave Zimmerman	Loomis Sayles	Discussed Enron in detail/not an Enron buyer/ Ran thru arguments - still not interested/ very interested in Williams/owns EPG		
17	Annie Tsao	Alliance	More discussion on Enron/Still learning company/ don't think she will be in /wants Sonat data & Williams		
18	James Elliot	Cowen Asset	Discussed Enron in detail/ Looking again at company/ may buy		
19	Mike Kerr	Capital Research	Discussed Enron in detail/ live one here/ Could be a buyer		
20	John Johnson	Berger Funds	Discussed Enron in detail/ Not interested		

4/2	4/29/98				
	Name	Company	Comments		
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4/28/99

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Interoffice Memorandum

CONFIDENTIAL

Debt Markets Commitment Committee To:

Energy & Global Power: Schuyler Tilney, Robert Furst, Bowen Diehl, Stephanie Schulz From:

Leverage Finance: Michael Senit, Chris Stout, Allen Custard, Erica Cho

Debt Capital Markets: Jack Sconzo, Adam Kulick

Energy & Global Power: (713) 759-2530, (214) 849-5350, (214) 849-5350, (214) 849-5330

Leverage Finance: (212) 449-8236, (212) 449-0982, (212) 449-4240, (212) 449-2675

Debt Capital Markets: (212) 449-4908, (212) 449-

March 27, 2001

Subject: 540.0 million participation request from Enron Corp. ("Enron" or the "Company") in funding a five-year Senior Secured Credit Facility for Zephyrus Investments, LLC ("Zephyrus")

Transaction Summary:

Merrill Lynch

Borrower / Guarantor: Zephyrus Investments, LLC/Erron Corp.

Date:

Senior Secured Term Loan Facility Facility:

\$481,725,000 Amount of Facility:

Use of Proceeds: Funds a Special Purpose Entity to purchase receivables and

other short term investment grade assets

Merrill Lynch Commitment \$40.0 million

Timing: As soon as practicable

Ratings: Not Rated; underlying assets are BBB- or better with 1.25x asset

coverage and Enron subordinated capital commitment

January 2001 Maturity:

Listing / Ticker: Zephyrus is not listed, Enron is "ENE"

Administrative Agent: JP Morgan Chase

Bank of America, BNP Paribas, Fleet National Bank, Sumitomo, Royal Bank of Scotland, First Union National Bank, Sanwa, Industrial Bank of Japan, WestLB, CIBC Other Lenders:

Independent Auditors: [KPMG LLC]

Group Head Approval: Jack Yang/Christopher Johnson

Merrill Lynch Research Coverage: Leo Kelser (Fixed Income), Donato Eassey (Equity)

> ermanent Subcommittee on Investigatio EXHIBIT #244

From:

Interoffice Memorandum

CONFIDENTIAL

To: Debt Markets Commitment Committee

Energy & Global Power: Schuyler Tilney, Robert

Furst, Bowen Diehl, Stephanie Schulz

Leverage Finance: Michael Senit, Chris Stout, Allen Custard. Eric Cho

Debt Capital Markets: Jack Sconzo, Adam Kulick

Energy & Global Power: (713) 759-2530, (214) 849-5350, (214) 849-5360, (214) 849-5330

Leverage Finance: (212) 449-0982, (212) 449-[]

Debt Capital Markets: (212) 449-0705.



Date: March 27, 2001

Subject: \$40.0 million participation request from Enron Corp. ("Enron" of the Company) in funding a five-year Senior Secured Credit Facility for Zephyrus Investments, LLC ("Zephyrus")

I Summars

Merrill Lynch has been asked by Enron to participate in a credit facility for Zephyrus, a newly formed Delaware limited liability company created by Enron for the purpose of aiding in securitizing receivables. Merrill Lynch will take assignment of \$40.0 million of a \$481.725 million Senior Secured Term Loan Facility (the "Facility"), which will be funded in full at closing. Zephyrus was initially capitalized with \$500 million, \$481.725 million from the Facility and \$18.275 million in equity. The debt at Zephyrus is ultimately secured by a portfolio of high-quality assets (the "Core Permitted Assets") purchased from Enron. The asset quality is further complemented by additional layers of equity in the structure which raise the asset coverage of the credit facility to 1.25 times. The purchase of the Core Permitted Assets from Enron will raise \$500 million in proceeds to be used by the Company to refinance debt and for general corporate purposes, while providing Enron with \$500 million of "minority interest" equity financing. Chase Securities Inc. ("CSI") arranged the credit facility for Zephyrus, which closed on November 28, 2000, with the participation of The Chase Manhattan Bank, Bank of America, N.A., BNP Paribas and FieetBoston Financial.

II. Merrill Lynch Relationship

Merrill Lynch has maintained a strong long-term relationship with Enron Corp. Recently, however, Enron management informed Merrill Lynch that it is at a distinct disadvantage because of Merrill's reluctance to use its balance sheet to support Enron's business activities. Enron has informed Merrill Lynch that, regardless of the firm's strengths in the various capital markets and advisory areas, hiring Merrill Lynch for high-profile assignments could jeopardize its relationships with its key providers of capital

Endeavoring to improve its relationship with Enron, the Merrill Lynch Enron relationship team arranged a meeting on February 16, 2001 between the senior management of Enron (Andy Fastow – CFO) and Dan Bayly and Tom Davis, to discuss ways in which the two companies could work together. As a result of this meeting, Merrill Lynch agreed to seek ways to commit its balance sheet to "selected situations" that

were uniquely value-added to the Company. The transaction discussed herein is the first instance of such a situation since the meeting in New York. Enron has told Merrill Lynch that, despite its small size, this transaction is high profile and the firm's participation would be noticed.

Merrill Lynch lead-managed a \$200.0 million TOPrS transaction in 1996, a \$480.0 million project financing for Sutton Bridge Power in 1997, a \$150.0 million TOPrS transaction in 1997 and a \$200.0 million Remarketed Reset Notes transaction in 1997. Merrill Lynch co-managed a 15.0 million share and 12.0 million share common stock offering for Enron in 1998 and 1999 respectively, and lead-managed a 36.0 million share IPO of Enron's water company (Azurix) in 1999. Recently, Enron engaged Merrill Lynch as its buyside advisor for the potential purchase of Valero. Merrill Lynch also placed two one-year eurobonds for Y10 billion and Y20 billion and is engaged as an advisor on the purchase of Sithe's Asian respective property.

Summary of Senior Secured Term Loan Facility

Payment of Interest:

Repayment of Principal:

Facility	Amount	Tenor	LIBOR Margin	Additional Upfront Fees
Senior Secured Term Loan Facility	S481.725 MM	5-Year	100.0 bps	550 MM ~50 bps 535 MM ~ 35 bps 520 MM ~ 20 bps

The S481.725 million Senior Secured Term Loan Facility is structured as a five-year non-amortizing term loan. The Facility was made available to Zephyrus in a single drawing upon closing to finance a portion of the purchase price of the S500 million Preferred Units to be issued by EFP.

Structural Protections: Lenders under the Facility will have a first priority security interest in the Preferred Units and the LLC Agreement of EFP. EFP, in turn, has a perfected security interest in receivables owned by Sequoia. In addition, if EFP fails to comply with certain covenants under the LLC Agreement, an

Event of Default will occur under the Facility.

Quarterly interest on the Facility will be paid from the Preferred Distributions by EFP. The Preferred Applicable Rate was set at LIBOR plus a spread (1.0202%), sufficient to cover anticipated interest payments on the Facility, expected yield on Zephyrus equity and estimated expenses, including local taxes.

As their source of repayment, the Lenders will look to liquidation of EFP's Core Permitted Assets. The Facility may be prepaid by Zephyrus, in whole or in part, on any interest payment date under the Facility. The Facility is required to be prepaid upon the early redemption, disposition or purchase of the Preferred Units. In addition, 97% of any Partial Redemptions (the "Partial Redemptions") are required to be used to

prepay the Facility.

IV. Sources and Uses

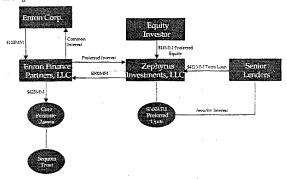
The table below sets forth sources and uses related to the capitalization of Zephyrus.

dollars in millions

Sources:	100	Uses:	
Term Loan	\$481.725	Purchase of Preferred Units	\$500
Equity Investment Total	18.275 S500	Total-	\$500

V. <u>Transaction Overview</u>

This transaction allows Enron to raise S500 million of "minority interest" equity financing and provides an efficient financing vehicle. The following is a transaction schematic to illustrate the flow of capital at closine.



EFP is an indirect subsidiary of Enron. Enron contributed \$125 million in cash to EFP in exchange for 100% of EFP's common equity (the "Common Units"). On November 28, 2000, EFP issued \$500 million of Preferred Units to Zephyrus, representing a preferred interest in EFP. Zephyrus purchased the Preferred Units with the proceeds from a \$481,725,000 Senior Secured Term Loan Facility and \$18,275,000 of equity. Zephyrus' sole purpose will be to manage and protect its preferred interest in EFP. It will not incur any additional debt or engage in any other business. Zephyrus' Limited Liability Company Agreement (the "LUC Agreement") governs the activities of EFP and contains certain covenants which apply to EFP.

EFP received 5625 million of cash representing the proceeds from both the Common Unit and Preferred Unit issues. EFP can invest the 5625 million "Core Permitted Assets" based on specific investment criteria detailed in the LLC Agreement. Included in the definition of Core Permitted Assets will be senior secured notes issued by Sequoia Financial Assets, LLC ("Sequoia") (the "Sequoia Notes") which are backed by and secured with:

- short term trade receivables (having a maturity of 30 days or less) generated in the normal course
 of business of Erron and certain of its subsidiaries, and
- short term notes (having a maturity of 30 days or less) issued by Enron or certain Enron subsidiaries.

Sequoia is capitalized with a 550 million subordinated interest held by Enron. Any losses resulting from defaulted receivables will be allocated first to Enron's subordinated interest. The subordinated interest must be replenished to 550 million on a monthly basis. Sequoia has not experienced a default in its 18 months of operation. Ultimately, it is anticipated that EFP will invest approximately \$315 million in Sequoia Notes, on a monthly basis.

EFP's S625 million in Core Permitted Assets provides a 1.25 to 1.0 asset coverage to the Preferred Units. The Sales and Servicing Agreement among Sequoia, Enron and certain Enron affiliates as Sellers further provides that 80% of the receivables backing EFP's Sequoia Notes have counterparties rated at least RBB- or Baa3 by S&P and Moody's, respectively (to ensure at least a 1.0 to 1.0 coverage of S&P/Moody's investment grade receivables to the Preferred Units). There is a further requirement that no more than 20% of the receivables pool be rated BBB- rating.

EFP's business activity will be to manage and to protect its investment in Core Permitted Assets. The EFP board of directors will be responsible for the management and investment decisions of EFP. Zephyrus will have the right to elect, in an event of default, 2 of the 3 directors to the board.

On an ongoing basis, EFP will receive cash flows generated by Core Permitted Assets in the form of interest. EFP will make quarterly distributions on the Preferred Units, ("Preferred Distributions"), intended to service Zephyrus' interest, dividends, taxes and expenses. Cash accumulating at EFP in excess of the Preferred Distribution will be reinvested in Core Permitted Assets.

Sequoia is an SPV established to purchase third party accounts receivables primarily from Enron North America ("ENA"), a 100% owned subsidiary of Enron as well as commercial paper issued by Enron. Sequoia Notes are included in the definition of Core Permitted Assets. Sequoia has been in operation for 18 months and has sold Sequoia Notes to Cherokee Finance V.O.F., ("Cherokee"). EFP and Cherokee will share pari passu (but pro-rata for their respective Core Permitted Asset Coverage Ratio) the entire pool of Sequoia's investment grade receivables. Enron's 550 million Class A Interest in Sequoia (which covers monthly defaults) will also be shared pari passu (but pro-rata for their respective Core Permitted Asset Coverage Ratio).

Mechanically, the receivables are transferred to Sequoia at a discount. Enron will continue to handle billing, credit policy, collection, cash management, tracking and reporting. Each month the portfolio turns over and the proceeds payable will be re-advanced under the Sequoia Notes, assuming compliance with the applicable purchase conditions. It is estimated that substantially all losses, if any, at Sequoia due to uncollectability of accounts would be absorbed by Enron through its subordinated Class A Interest in Sequoia.

To qualify as Core Permitted Assets, the Sequoia Notes must be backed by investment grade accounts receivables (rated BBB- or better) or Enron commercial paper rated A2/P2 or better. ENA generates a core group of receivables based on contracts for the supply of electricity or natural gas to certain standing customers. In accordance with industry standards, these contracts and accounts are billed on a monthly cycle. Payments of receivables must be due within 30 days.

Some of the key protections for the senior note holders in Sequoia are as follows:

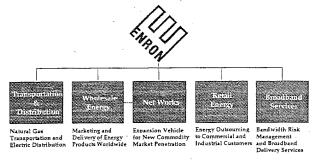
- 1. Credit quality, liquidity and other eligibility requirements of the Sequoia portfolio.
- 2. EFP will have a perfected security interest in receivables owned by Sequoia.

- 3. In addition to the Sequoia Notes, Sequoia is capitalized with a \$50 million subordinated interest held by Enron. Any losses resulting from defaulted receivables will be allocated tirst to Enron's subordinated interest. The subordinated interest must be replenished on a monthly basis. Further, Enron's monthly Class A Interest contribution must equal the greater of (i) \$50 million or (ii) 2.5% of the aggregate face amount of the Monthly Notes:
- If credit losses at Sequoia were to exceed Enron's Class A subordinated interest, to the extent such losses impacted the asset coverage ratios, it would result in a default at EFP under its LLC Agreement and Cherokee under its General Partnership Agreement.
- No consent to the addition of any "Seller" under the Sequoia Sales and Servicing Agreement unless adequate documents are delivered.
- In the event of an Enron bankruptcy, the worst case scenario is EFP becomes a senior lender to
 Enron, with such loans being secured to the extent of receivables owing by third party obligors.

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VI. Enron Corp Overview

Enron, headquartered in Houston, Texas, is one of the largest sellers of natural gas and electricity in deregulated and privatized markets on three continents with approximately \$65.5 billion in assets, \$100.8 billion in revenues, and funds flow from operations of \$4.8 billion (excluding non-recurring items) for the year ended December 31, 2000. Currently, Enron's equity market capitalization is approximately \$45.9 billion and its servior unsecured debt is rated BBB+/Baal by Standard & Poor's and Moody's, respectively. Enron provides products and services related to natural gas, electricity and communications to wholesale and retail customers. Enron's operations are conducted through its subsidiaries and affiliates, organized as follows:



Furthermore, Enron is the largest provider of energy risk management services in the world and owns the largest natural gas pipeline system in the U.S. Enron is also constructing a 10,000 mile nationwide fiberoptic telecommunications network. Enron is frequently characterized as the agent of change in the rapidly deregulating and privatizing energy markets and has been named the "Most Innovative Company in the World" for four consecutive years by Fortune. Enron currently ranks among the Fortune 100 companies with annual revenues of over \$30 billion. Importantly, Enron has made investments of over \$7 billion in each of the last two years in a variety of energy-related businesses and currently owns merchant investments of over \$10 billion.

List of Appendices

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Enron Annual Report – 2000	4
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Zephyrus LLC Agreement	
Amended and Restated Sale and Servicing Agreement	
Sequoia Financial Assets, LLC Note Purchase Agreement	
Zephyrus Investments, LLC Security Agreement	
Enron Finance Partners, LLC Limited Liability Company Agreement	
Enron Finance Partners, LLC Indemnification Agreement	
Funding Agreement	

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Merrill Lynch & Co. Capital Commitments FOR INTERNAL USE ONLY

Commitment Committee Information

Company:

Zephyrus Investments, LLC/Enron Corp.

\$481.725 MM Senior Secured Term Loan Facility

(Include code-name, if any)

Issue:

(5-year facility) U.S. dollars

Currency: Amount:

\$40 MM commitment Unrated (Enron: BBB+/Baa1)

Expected Ratings: Form of Commitment:

single draw down at closing

Use of Proceeds:

Allows Enron to raise up to \$500 million of "minority interest" equity financing and provides an efficient financing vehicle

Proposed DMCC Date: Prospectus/OM Printing Date: March 29, 2001

N/A

Deal Team:

Schuyler Tilney (713/759-2530), Rob Furst (214/849-5350), Bowen-Diehl (214/849-5360), Travis Armayor (214/849-5370), Stephanie

Schulz (214/849-5330)

Capital Markets:

Adam Kulick (212/449-3715), Chris Stout (212/449-0982), Allen Custard (212/449-4240), Michael Senft (212/449-8236), Jack

Sconzo

Group Head Approval:

Rick Gordon (713/759-2510) Leo Kelser (212/449-7803)

Research Analyst:

ML - Role: Lender 40 bps

ML Economics: Other Lenders:

THE CHASE MANHATTAN BANK

(administrative agent)

BANK OF AMERICA (documentation agent)

BNP PARIBAS (syndication agent) FLEETBOSTON FINANCIAL (senior

management agent)

Sumitomo

Royal Bank of Scotland First Union National Bank

Sanwa

Industrial Bank of Japan

WestLB CIBC

ermanent Subcommittee on Investigation EXHIBIT #245

Merrill Lynch & Co. Capital Commitments

FOR INTERNAL USE ONLY

Gross Spread:

\$50 MM/50 bps \$35 MM/35 bps \$20 MM/20 bps

Brief Description of Company:

Enron Corp. founded Enron Finance Partners. LLC ("EFP") to serve as a financing vehicle for Enron and its affiliates. As part of the formation of EFP, Enron raised \$500 million of new financing rormation of EFF. Lenton raises a SOU million of new financing through the sale of Preferred Units by EFP. Zephyrus Investments, LLC purchased the Preferred Class C Units for a cash price equal to \$500 million. Zephyrus funded its purchase of the Preferred Units on November 28, 2000 with the proceeds from a \$18.275.000 equity issuance and a five-year, \$481,725.000 Senior Secured Term Loan Exactly. Facility.

- 12 La 19

Public Equity:

"ENE

\$59.6 Market Value \$59.40 Current Price

\$90.75/\$51.51 52 week High/Low

Public Debt:

(Dollars in millions) As of December 31, 1999

Enron Corp.
Senior debentures (6.75% to 8.25% due '05 - '12): \$318

Senior debentures (6.75% to 8.25% due 05 – '12): \$2

Notes payable
7.00% exchangeable notes due 2012: \$239
6.45% to 9.88% due '01 – '28: \$4.209
Floating rate notes due '99 – '04: \$329

Northern Natural Gas Company
Notes payable (6.75% – 8.00% due '05 – '11): \$500

Transwestern Pipeline Company
Notes payable (7.55% – 9.20% due '00 – '04): \$142

Portland General

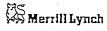
Portland General

First Mortgage Bonds (6.47% - 9.46% due '99 - '23): \$398 Pollution Control Bonds (various rates due '10 - '33): \$200

Memorandum

To: Andy Fastow

From: Schuyler Tilney, Robert Furst



Date: October 7, 1999

Subject: Skilling Questions on LTM2

We would like to have a conversation with Jeff about LIM2. Our questions are as follows:

- I. Have you considered the amount of time Andy and his team will devote to LIM2?-
- 2. We are targeting a fund size of S200MM. If we should raise S500MM, are you still comfortable with the amount of time Andy and his team will devote to LJM2?
- Are you comfortable with the internal mechanics put in place to resolve the conflict of interest issue? Have these internal policies been reviewed with internal and external counsel and the Board?

Permanent Subcommittee on Investigations
EXHIBIT #246

MS 06120

Interoffice Memorandum

To: LJM Due Diligence-File

Merrill Lynch

From: Robert Furst At: IBX Dallas At

Date: October 12, 1909

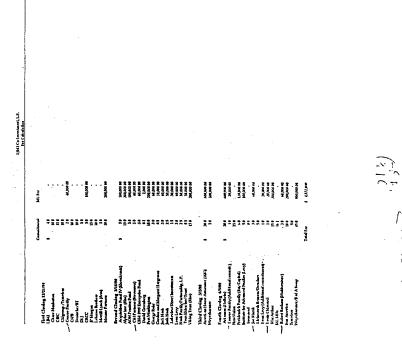
On October 11, 1999, Schuyler Tilney and Robert First spoke with Jeff Skilling, President and COO, of Euren Corp. We asked Jeff the questions listed on the memo dated 10/7/99 strached. It was apparent that Jeff Skilling has spent a great deal of time with LJM2 matters. Jeff is fully supportive of pursuing different crethods of financing for Enron Corp. Jeff is comfortable with the conflict of interest usus for the following reasons.

- Andy has no control of asset sale decision.
 Rick Causey, EVP and Chief Accounting Officer, will review all transactions.
 Addit Committee of the Beard will receive LIM2 financial statements.

Jeff stressed how important transparency and disclosure will be to the success of this arrangement.

Schuyler Tilney Brad Bynum

tstii sw



Permanent Subcommittee on Investigation: EXHIBIT #247

Dolan, Gary (OGC)

From: Sent: To: Cc: Subject:

Sullivan, David (IBK-NY) Thursday, November 01, 2001 11:25 AM Dolan, Gary (OGC) Sullivan, Ben (IBK) LJM2



LJM2 STATUS.xls

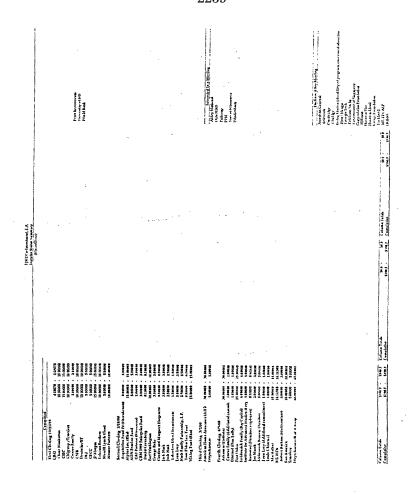
as of 9/30/01

The total capital committed was about \$394 million
The total capital called is: \$243,333,445
\$511 committed to investments/\$452 million invested
17 investments liquidated for a total proceeds of \$394 million
\$66.6 million of partners capital is currently drawn

ML yeard 4243, 6 mm

Permanent Subcommittee on Investigation EXHIBIT #248

MS 13435



MS 13436

CONFIDENTIAL

PRIVATE PLACEMENT MEMORANDUM

LJM2 Co-Investment, L.P.

Merrili Lynch & Co.





CONFIDENTIAL

LJM2 CO-INVESTMENT, L.P. \$200,000,000 Limited Partnership Interests

This Private Placement Memorandum ("Memorandum") is being furnished to prospective investors on a confidential basis in order that such prospective investors may consider an investment in limited partner interests (the "Interests") in LJM2 Co-Investment, L.P., a Delaware limited partnership ("LJM2" or the "Partnership"), and may not be used for any other purpose. Each potential investor, by accepting delivery of this Memorandum, agrees not to make a photocopy or other copy or to divulge the contents hereof to any other person other than a legal, business, investment, or tax advisor in connection with obtaining the advice of such person with respect to this offering.

The Interests are being offered in a private placement to a limited number of accredited investors and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Accordingly, unless a disposition is exempt from the registration requirements of such laws, the Interests must be held until the Partnership is liquidated. In addition, the transferability of the Interests will be restricted by the Amended and Restated Limited Partnership Agreement of the Partnership (the "Partnership Agreement").

This Memorandum is intended to present, among other things, a general outline of the objectives and structure of the Partnership. The Partnership Agreement, which specifies the rights and obligations of the partners, should be reviewed thoroughly by each prospective investor. The summary of certain provisions of the Partnership Agreement contained herein is necessarily incomplete and is qualified by reference to such Partnership Agreement. Copies of the Partnership Agreement and other relevant material will be made available to prospective investors upon request.

In making an investment decision, investors must rely on their own examination of the Partnership and the terms of the offering, including the merits and risks involved. Each prospective investor or its representative may request copies of such documents, ask questions, and obtain additional information reasonably necessary to verify the accuracy of the information contained in this Memorandum. Except as provided herein, no person has been authorized in connection with this offering to give any information or to make any representations other than as contained in this Memorandum.

The Interests have not been approved or disapproved by the Securities and Exchange Commission ("SEC") or any state securities commission, and neither the SEC nor any state securities commission has passed upon the accuracy or adequacy of this Memorandum. Any representation to the contrary is a criminal offense.

Merrill Lynch & Co.

AF100043

Investment in the Interests described herein will involve significant risks, including those described in the section titled "Risk Factors" below. Investors should have the financial ability and willingness to accept the risks and lack of liquidity which are characteristic of the investment described herein.

Prospective investors are not to construe the contents of this Memorandum as legal, investment, business, or tax advice. Each investor should consult its own counsel, accountant, and other advisors as to legal, investment, business, tax, and related aspects of a purchase of the Interests offered hereby. The Partnership is not making any representations to any offeree or purchaser of the Interests regarding the legality of an investment therein by such offeree or purchaser under appropriate legal investment or similar laws.

The Partnership reserves the right to withdraw this offering of the Interests at any time and the Partnership and LJM2 Capital Partners, LLC, a Delaware limited liability company that is the general partner of the Partnership (the "General Partner"), reserve the right to reject any commitment to subscribe for the Interests in whole or in part and to allot to any prospective investor less than the full amount of the Interests sought by such investor. The General Partner and certain related persons may acquire for their own account a portion of the Interests.

This Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Interests in any jurisdiction where, or to or from any person to or from whom, such offer or solicitation is unlawful or not authorized.

None of Enron Corp., an Oregon corporation ("Enron"), and its subsidiaries has issued, or guaranteed any payments with respect to, the Interests, and none of Enron and its subsidiaries is responsible for the financial or other performance of the Partnership.

This Memorandum includes or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Memorandum, including, without limitation, statements regarding the Partnership's future financial position, business strategy, and plans and objectives, including the ability of the Partnership trearticipate in investment opportunities generated by Euron and its subsidiaries, are forward-looking statements. Important factors that could cause actual results to differ materially from those anticipated by the Partnership include the willingness of Euron to permit the Partnership trearticipate in investment opportunities generated by Euron and its subsidiaries, the success of the Partnership in identifying other investment opportunities, the ability of the Partnership to participate in such investments on terms acceptable to the Partnership, and the actual performance of the investments in which the Partnership participatess. Although the Partnership believes its expectation are reasonable, it can give no assurance that its investment objectives will be achieved.

No person has been authorized to give any information or to make any representation concerning to Partnership or the offer of the Interests other than the information contained in this Memorandum and, if given or made, such information or representation must not be relied upon as having bee authorized by the Partnership, the General Partner, or Merrill Lynch & Co. The informatic contained in this Memorandum has been compiled as of October 13, 1999 (except as otherwistated herein). Certain information presented herein about Enron has been compiled from public

AF100044 "Foia confidential
TREATMENT REQUESTED
BY ANDREW FASTOW"

available sources. Enron has not prepared this Memorandum and Enron has not approved or endorsed the contents of this Memorandum. Neither the delivery of this Memorandum at any time, nor any sale hereunder, shall under any circumstances create an implication that the information contained herein is correct as of any time subsequent to such date, and none of the Partnership, the General Partner, and Merrill Lynch & Co. undertakes an obligation to update or revise the information contained in this Memorandum, whether as a result of new information, future events or otherwise. The information is from sources believed to be reliable, but none of the Partnership, Merrill Lynch & Co., and any other person has independently verified the information contained herein.

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been engaged as placement agent in connection with the formation of the Partnership and may use its affiliates to assist in its placing activities. Reference in this Memorandum to "Merrill Lynch & Co." shall be deemed to include Merrill Lynch, Pierce, Fenner & Smith Incorporated and, where the context so permits, its affiliates that assist in its placing activities.

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AF100048

"FOIA CONFIDENTIAL TREATMENT REQUESTE BY ANDREW FASTOW

I. EXECUTIVE SUMMARY

Introduction

LJM2 Co-Investment, L.P., a Delaware limited partnership ("LJM2" or the "Partnership"), is being organized by Andrew S. Fastow, Executive Vice President and Chief Financial Officer of Enron Corp., an Oregon corporation ("Enron"), to make privately negotiated equity and equity-related investments in energy—and communications—related businesses and assets. The Partnership expects that Enron will be the Partnership's primary source of investment opportunities and that the Partnership will (i) co-invest with Enron or its subsidiaries in new investments in, or acquisitions of, businesses and assets, and (ii) make investments in, or acquire an investment interest from Enron or its subsidiaries relating to, existing assets or businesses owned by Enron or its subsidiaries. It is expected that in connection with the foregoing investments, Enron will retain a significant economic or operating interest in the businesses or assets in which the Partnership invests. The Partnership may also from time to time make investments in businesses or assets where Enron has no involvement. This is the second such fund formed by Mr. Fastow targeted at investing primarily in companies owned or controlled by Enron. The Partnership's objective is to generate an annualized internal rate of return ("IRR") in excess of 30% to investors in the Partnership after payment of all Partnership fees and expenses and payment of the carried interest to the General Partner.

Enron, headquartered in Houston, Texas, is one of the largest sellers of natural gas and electricity in deregulated and privatized markets on three continents. Additionally, Enron is the largest provider of energy risk management services in the world and owns the largest natural gas pipeline system in the U.S. Enron is also constructing a 10,000 mile nationwide fiber-optic telecommunications network. Enron is frequently characterized as the agent of change in the rapidly deregulating and privatizing energy markets and has been named the "Most Innovative Company in the World" for four consecutive years by Fortune. Enron currently ranks among the Fortune 100 companies with annual revenues of over \$30 billion. Importantly, Enron has made investments of over \$7 billion in each of the last two years in a variety of energy-related businesses and currently owns merchant investments of over \$10 billion. See—"Overview of Enron." Under Mr. Fastow's management, the Partnership expects to have the opportunity to co-invest with Enron in many of Enron's new investment activities and the opportunity to acquire existing Enron assets on a highly selective basis. This access to deal flow should provide the Partnership with unusually attractive investment opportunities.

The target size of the Partnership is \$200 million. The General Partner reserves the right to accept additional commitments in excess of \$200 million. The Partnership is expected to generate significant co-investment opportunities for investors in the Partnership because the Partnership will be limited to investing no more than 10% of its committed capital in any one company, and the General Partner expects many of the opportunities the Partnership pursues to require capital in excess of the amount the Partnership is able to provide under this diversification limitation. Co-investment amounts will not be subject to a carried interest.

The General Partner of the Partnership will be LJM2 Capital Partners, LLC, a Delaware limited liability company (the "General Partner"), an entity owned and controlled by one or more of the Principals (as defined below). The Partnership will be managed on a day-to-day basis by a team of

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three investment professionals who all currently have senior level finance positions with Enro-Andrew S. Fastow, Michael J. Kopper, and Ben Glisan, Jr. (collectively, the "Principals"). The Principals will continue their current responsibilities with Enron while managing the day-to-de operations of the Partnership. See – "Risk Factors – Dependence on Key Personnel" and "Conflict of Interest – Dual Role of Principals."

Investment Opportunity

The Principals believe that LJM2 provides investors with an unusually attractive investme opportunity for the following reasons:

Access to Significant Proprietary Deal Flow. Enron has extensive deal origination capabilithat is derived from approximately 2,000 fully dedicated Enron-employed origination armonitoring professionals located around the world. The deal flow emanating from the origination infrastructure has resulted in Enron making over \$7 billion of energy-relate investments in each of the last two years and holding merchant investments of ov \$10 billion. As a result of Enron's in-house deal sourcing capability as well as its leading market position in most businesses in which it operates, Enron frequently has access investment opportunities that are not available to other investors. The Partnership expect to benefit from having the opportunity to invest in Enron-generated investment opportunities that would not be available otherwise to outside investors.

Enron's Investment Record. Enron's record as a successful investor is reflected in returit has generated for its shareholders as measured by the appreciation in its common stoce which, from January 1, 1990, through September 30, 1999, has increased 641% (princrease plus assumed re-investment of dividends), as compared to returns of 363% for it S&P 500 and 141% for the S&F Energy Index for the same period. Furthermore, Enron h successfully managed two institutionally funded private equity partnerships, Joint Energ Development Investments Limited Partnership ("JEDI I") and Joint Energy Development Investments II Limited Partnership ("JEDI I") which have generated (or are estimated generate, as the case may be) an IRR after payment of fees and expenses of the partnersh and payment of a carried interest, if any, to the partnerships general partners (each, a "N IRR") of 23% and 194%, respectively, compared to targeted IRRs for the partnerships invested capital before fees, expenses, and carried interest (a "Gross IRR") of 15% and 20° respectively. The General Partner believes that a significant portion of this superi performance can be attributed to the quality of investment opportunities sourced by Enro See — "Summary of Investment Experience."

Enron's Capabilities to Analyze and Structure Investments and Operate Assets. Over tyears, Enron has developed a rigorous process of investment analysis, which emplo approximately 130 professionals in varying disciplines such as engineering, research, cree tax, legal, accounting, insurance, and risk analysis. As LJM2 expects that it primarily we investing in assets in which Enron has an interest, it should benefit from Enron's expert in all areas relating to the investment in and management of energy and communicatio assets, including the physical and financial risk management of energy assets and extensi

operating capabilities in all aspects of the energy industry and certain aspects of the communications industry.

The Ability to Evaluate Investments with Full Knowledge of the Assets. Due to their active involvement in the investment activities of Enron, the Principals will be in an advantageous position to analyze potential investments for LJM2. The Principals, as senior financial officers of Enron, will typically be familiar with the investment opportunities LJM2 considers. The Principals believe that their access to Enron's information pertaining to potential investments will contribute to superior returns.

Speed and Knowledge Advantage of LJM2. LJM2 will be positioned to capitalize on Enron's need to rapidly access outside capital due to the Principals' familiarity with Enron's assets and their understanding of Enron's objectives, which should facilitate LJM2's ability to quickly execute transactions. This ability to act quickly is invaluable to Enron and should enhance the flow of opportunities for LJM2.

Investment and Financial Expertise of Principals. The Principals are a group of highly talented financial professionals with extensive experience originating and structuring complex transactions. This experience has given the Principals the ability to create innovative financial structures around investments, which should enhance returns to investors in LJM2. The Principals have been involved in managing JEDI I and JEDI II.

The Principals .

The day-to-day activities of the Partnership will be managed by Messrs. Fastow, Kopper, and Glisan. Each of the Principals has spent a significant portion of his professional career in energy and communications investing, structured finance, and risk management (including substantial involvement in the organization, operation, and investment management of each of JEDI I and JEDI II), and, as a team, the Principals possess specific expertise necessary to maximize the Partnership's performance.

Andrew S. Fastow, Executive Vice President and Chief Financial Officer of Enron, has been the Chief Financial Officer of Enron since 1997; prior to that, he was a Managing Director and principal financial officer for Enron Capital & Trade Resources Corp. ("ECT"), Enron's principal merchand investing subsidiary. In these capacities, he has been involved in structuring and managing many of Enron's investments. Mr. Fastow has been with Enron for nine years. Michael J. Kopper, Managing Director in Enron's Global Equity Markets Group, is responsible for Enron's Global Equity and Structured Finance businesses. He has been with Enron for five years. Ben Glisan, Jr., Vice President in Enron's Global Equity Markets Group, is primarily responsible for Enron's structured finance activity. Mr. Glisan has been with Enron for three years. Summary biographies of the Principals are included elsewhere in this Memorandum. See – "Management of the Partnership – Biographies of the Principals."

The Principals will remain employees of Enron and will devote such of their business time and attention as they deem reasonably necessary to manage the affairs of the Partnership, subject to their obligation to devote their business time and attention primarily to the discharge of their

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responsibilities as senior financial officers of Enron. The Partnership should also benefit indirectly from time spent by the Principals in evaluating and structuring investments for Enron, as many of these investments may become candidates for investment by the Partnership.

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II. INVESTMENT STRATEGY

Investment Strategy

LJM2 believes that it will be uniquely positioned to capitalize on Enron's need for outside capital due to the Principals' familiarity with Enron's assets and their understanding of Enron's objectives and LJM2's ability to quickly execute transactions. This ability to act quickly is valuable to Enron and should result in a steady flow of opportunities for the Partnership to make investments at attractive prices. In order to fully capitalize on its advantages, LJM2 will seek to implement the following investment strategy:

Invest with Enron. LJM2 expects that Enron will be LJM2's primary source of investment opportunities and that LJM2 will (i) co-invest with Enron or its subsidiaries in new investments in, or acquisitions of, businesses and assets, and (ii) make investments in, or acquire an investment interest from Enron or its subsidiaries relating to, existing assets or businesses owned by Enron or its subsidiaries. LJM2 may, however, make investments in businesses or assets where Enron has no involvement.

Invest in Assets and Businesses Where the Seller Retains an Ongoing Economic Interest. LJM2 will typically require that the seller (expected to be Enron in most cases) retain a significant ongoing economic or operating interest in the assets. By requiring Enron to retain a significant economic or operating interest in its deals, LJM2 should ensure that it will have access to the significant resources of Enron in order to manage assets on an ongoing basis.

Capitalize on Financial Expertise. Once a target investment has been identified, the Principals will seek to enhance the risk/return profile of such investment through the use of innovative transaction structures and will implement rigorous risk management techniques in order to seek to protect investments from downside risk.

LJM2 will typically seek to exit transactions either by negotiating co-sale rights or by securitizing and placing investments into the capital markets. LJM2 will typically have no hold restrictions and may also individually re-market an investment to industry and financial investors.

Rationale for Enron Providing Investment Opportunities to LJM2

Enron has been active in making investments over the past seven years. It is notable that, as of June 30, 1999, Enron had \$34 billion of assets on its balance sheet, but was owner or manager of assets in excess of \$51 billion (the difference between these numbers represents the amount of assets financed off-balance sheet, often through co-investment partnerships or joint ventures). When Enron acquires an investment, it may decide to reduce its operating and financial risk by selling a portion of its investment to co-investors; in many cases, it seeks to maintain an active or controlling role in the underlying investment.

The pace of sales of investments by Enron to co-investors has increased recently for three reasons. First, Enron's investment opportunities continue to accelerate. The global energy markets in which Enron is a leading participant exceed \$1 trillion per year in revenues. The natural gas and electricity

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industries are among the most capital-intensive industries in the world. Enron, as one of the leaders in these industries on three continents, must invest significant amounts of capital in order to retain and enhance its leadership position. Enron has also recently entered the communications business, which has significant investment opportunities as well.

Second, Enron's growth capital is derived from the sale or partial sale of investments. To capitalize on its unique growth (as evidenced by its more than \$10 billion in merchant investments and its ability to invest \$7 billion a year for the past two years), Enron must have significant capital resources. Although investments in the natural gas, electricity, and communications industries may have very attractive rates of return, such investments often do not generate cash flow or earnings in the first several years. Lack of cash flow may restrict a company's ability to finance the investment with debt, and lack of current earnings may restrict a company's ability to issue public equity. By bringing in co-investors or by disposing of portions of investments, Enron can finance substantial growth and make investments while maintaining its investment grade credit rating, meeting current earnings expectations, and retaining desired financial and operating involvement in its investments.

Third, in addition to the equity return earned on its investments, a significant portion of Enron's earnings is derived from fees garnered from the physical marketing of commodities, price risk management (related to those commodities), and asset development and management Notwithstanding that the initial investment is still generating significant returns, in order to invest in new, additional fee-generating assets, Enron may sell down investments.

As a result of Enron's substantial investment opportunities and because of its need to optimize its financial flexibility, the Principals expect that Enron will continue to seek co-investors or to dispose of portions of investments. The Partnership's strategy will be to capitalize on Enron's needs by being a value-added investor for Enron through the Partnership's ability to invest quickly and its ability to structure deals that match Enron's objectives.

Profiles of Selected Example Investments

Described below are three transactions that Euron either has completed or is in the process of completing and that are representative of the types of investments in which LJM2 might participate:

East Coast Power LLC - Co-investment with Enron. In February 1999, JEDI II (whose partners are Enron (or a subsidiary thereof) and California Public Employee Retirement System ("CalPERS")) formed East Coast Power LLC ("East Coast Power") in order to acquire assets from Cogen Technologies Group for a total of \$1.5 billion. East Coast Power indirectly owns equity interests in three combined-cycle natural gas co-generation power plants in New Jersey. Each plant sells electricity to investor-owned utilities in New York or New Jersey pursuant to long-term power purchase agreements. The facilities have a combined nameplate capacity of 1,037 megawatts of electrical power production. By securitizing the power purchase agreements, Enron was able to reduce the equity capital required to finance the acquisition from 30% to 9% of total capitalization. This generated base case equity returns in excess of 20% compared to similar projects that typically generate returns in the low teens. In July 1999, JEDI II sold approximately 50% of its ownership interest in East Coast Power to a third party, generating a Gross IRR of 5048% for the portion of the investment sold. Messrs. Fastow and Kopper were involved in the structuring of this transaction

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Project Margaux – Investment in Existing Enron Assets. Enron is currently working on Project Margaux, a new structured finance transaction that monetizes the dividend streams of five European assets developed or acquired by Enron over the past 10 years. In this transaction, Margaux Holdings, a newly formed entity, is expected to acquire indirect equity interests in the five European assets from Enron. Project Margaux would be capitalized with approximately \$525 million of high yield debt or bank debt and approximately \$50 million of equity. Repayments of the high yield issuance or bank facility and a return to the equity investors will come from the distributions made by the individual projects to their equity owners.

Enron Energy Services – Investment in an Existing Enron Business. In 1997, Enron created a new business unit named Enron Energy Services ("EES"). Unlike Enron's existing businesses, which were selling energy products and services at the wholesale level, EES was developing a business model to sell products "around" the utility and directly to various end-users. While this market had been open previously on a limited basis, new legislation at the state levels was pending that would open much of the \$300 billion market to competition. Mr. Fastow helped Enron obtain investments in EES by two pension funds totaling \$165 million in exchange for 8.7% of the equity of EES. Based on these investments, the implied market value of EES at the time of the investment was \$1.9 billion. Equity research analysts currently estimate the value of EES to be between \$4 billion and \$10 billion, which would generate an estimated Gross IRR of between 77% and 229% if the investors were to liquidate the investment at year-end 1999.

Dual Role Advantages

Mr. Fastow will continue to hold the titles and responsibilities of Executive Vice President and Chief Financial Officer of Enron, and Messrs. Kopper and Glisan will continue to serve as senior financial officers of Enron, while acting as the owners and managers of the General Partner. As a result, investors in the Partnership should benefit from Mr. Fastow's and the other Principals' dual roles which will facilitate the Partnership's access to Enron deal flow. The Principals' dual roles in managing the Partnership while remaining employed as senior financial officers of Enron, however, raise certain conflicts of interest that could affect the Partnership. See — "Conflicts of Interest."

III. INVESTMENT HIGHLIGHTS

The Principals believe that the Partnership represents an attractive investment opportunity for the following reasons:

Access to Significant Proprietary Deal Flow

Enron has extensive deal origination capability that is derived from approximately 2,000 fully dedicated Enron-employed origination and monitoring professionals located around the world. The deal flow emanating from this origination infrastructure has resulted in Enron making over \$7 billion of energy-related investments in each of the last two years and holding merchant investments of over \$10 billion.

Enron's leadership position in the markets in which it competes also creates proprietary investment opportunities for Enron. The global energy markets in which Enron is a leading participant exceed \$1 trillion per year in revenues. The forces of deregulation and privatization are driving the restructuring of this enormous industry. As gas and electricity markets have opened up in the U.S. and internationally, Enron has consistently been or has become a market leader. In most deregulated markets in which it operates, Enron sells more gas and electricity than any of its competitors, including the incumbent utilities. This market leader position has led to unique and proprietary investment opportunities for Enron. Enron has recently entered the communications business, which has significant investment opportunities as well.

As a result of Enron's in-house deal sourcing capability as well as its leading market position in most businesses in which it operates. Enron frequently has access to investment opportunities that are not available to other investors. The Partnership expects to benefit from having the opportunity to invest in Enron-generated investment opportunities that would not be available otherwise to outside investors.

Enron's Investment Record

Enron's record as a successful investor is reflected in returns it has generated for its shareholders as measured by the appreciation in its common stock, which, from January 1, 1990, through September 30, 1999, has increased 641% (price increase plus assumed re-investment of dividends), as compared to returns of 363% for the S&P 500 and 141% for the S&P. Energy Index for the same period Furthermore, Enron has successfully managed two institutionally funded private equity partnerships IEDII and JEDIII, which have generated (or are estimated to generate, as the case may be) Net IRR to outside investors of 23% and 194%, respectively, compared to targeted Gross IRRs of 15% and 20%, respectively. See — "Summary of Investment Experience."

Enron's Capabilities to Analyze and Structure Investments and Operate Assets

A key element of Enron's ability to create value has been its ability to structure and implement complex transactions. Over the years, Enron has developed a rigorous process of investmer analysis, which employs approximately 130 professionals in varying disciplines such as engineering research, credit, tax, legal, accounting, insurance, and risk analysis. This creative approach t

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structuring many of its investments has enabled Enron to mitigate downside risk, provide opportunities for early return of capital, enhance its returns, and provide additional upside opportunity. The Principals have been the key architects of many of these innovative structures and will employ such structures, where appropriate, for the benefit of investments made by LJM2. Since LJM2 expects that it primarily will be investing in assets in which Enron has an interest, it should benefit from Enron's expertise in all areas relating to the investment in and management of energy and communications assets, including the physical and financial risk management of energy assets and extensive operating capabilities in all aspects of the energy industry and certain aspects of the communications industry.

The Ability to Evaluate Investments with Full Knowledge of the Assets

Due to their active involvement in the investment activities of Enron, the Principals will be in an advantageous position to analyze potential investments for LJM2. The Principals, as senior financial officers of Enron, will typically be familiar with the investment opportunities the Partnership considers. The Principals believe that their access to Enron's information pertaining to potential investments will contribute to superior returns.

Speed and Knowledge Advantage of LJM2

LJM2 will be positioned to capitalize on Euron's need to rapidly access outside capital due to the Principals' familiarity with Euron's assets and their understanding of Euron's objectives. The Principals' positions at Euron should enable them to recognize investment opportunities early, to make decisions quickly, and to structure investments to meet LJM2's and Euron's objectives. This ability to act quickly is invaluable to Euron and should enhance the flow of opportunities for the Partnership.

Investment and Financial Expertise of Principals

The Principals are a group of highly talented financial professionals with extensive experience in originating and structuring complex transactions. This experience has given the Principals the ability to create innovative financial structures around investments, which should enhance returns to investors in LJM2. The Principals have been involved in managing both JEDI I and JEDI II.

IV. SUMMARY OF INVESTMENT EXPERIENCE

The Principals have extensive experience in originating, structuring, and executing complex transactions, and each has had extensive involvement in the organization, investment activity, and operations of JEDII and JEDIII. The Principals believe that the performance information regarding JEDII and JEDIII presented below will be useful to investors considering an investment in LJM2 because of the Principals' involvement in JEDI I's and JEDII's investment activity, and because the investments made by those partnerships are indicative of some of the types of investment opportunities that will be available to LJM2. Prospective investors should note that past performance is not necessarily indicative of future results, and there can be no assurance that LJM2 will achieve comparable results. Prospective investors should also note that there are material differences between LJM2 and each of JEDI I and JEDI II, including overlapping but different investment mandates (JEDI I and JEDI II target co-investment with Enron in new energy investments, but cannot purchase existing investments from Enron) and different profit-sharing arrangements among the partners, which should be considered when evaluating the investment performance information presented below.

JEDI I was formed in 1993 with \$500 million of capital commitments. Enron and CaPERS each contributed \$250 million to JEDI I. Enron Capital Management, L.P., an affiliate of Enron, is the general partner of JEDI I. The investment guidelines for JEDI I were to achieve a Gross IRR of 15% by investing in new investments (primarily natural gas-related) made by Enron in the debt, equity-linked, and equity securities of energy companies located in the U.S. Using a combination of contributed capital, debt financing, and reinvestment of investment proceeds, JEDI I invested \$2.1 billion in 63 separate transactions. Upon a sale of its interest in JEDI I in 1997, CaPERS realized \$383 million on its \$250 million of contributed capital, generating a Net IRR to CaPERS of 23%.

JEDI II was formed in 1997 with \$1 billion of capital commitments. Enron and CalPERS each committed \$500 million to JEDI II. Enron Capital Management II Limited Partnership, an affiliate of Enron, is the general partner of JEDI II. The investment guidelines for JEDI II are to achieve a Gross IRR of 20% by investing in new investments (energy-related) made by Enron in debt, equity-linked, and equity securities of energy companies located in the U.S. and internationally. Using a combination of contributed capital, debt financing, and reinvestment of investment proceeds, JEDI II has invested \$810 million in 31 separate transactions to date. As of June 30, 1999, the partner of JEDI II had made capital contributions to JEDI II of \$237.5 million. The Principals estimate that if JEDI II's unrealized investments had been liquidated for their then fair value and JEDI II had been liquidated as of June 30, 1999, the unrealized value of CalPERS' \$118.8 million of contributed capital would have been \$214.7 million, generating a Net IRR to CalPERS of 194%.

The estimated value of JEDI II's investments is determined in accordance with the fair value accounting methodology. Generally, an investment's "fair value" is an estimate, based on a variet of factors, of the amount that may be realized currently upon an orderly disposition of suc investment; under the fair value accounting methodology, the carrying value of investments i periodically increased or decreased to reflect changes in their fair value, even where no realizatio event has occurred. For publicly traded securities, fair value is based upon quoted market prices; for securities that are not publicly traded, fair value is determined based on other relevant factor including dealer price quotations, price activity for comparable instruments, and valuation pricin

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models. "Fair value" is only an estimate of current value for an unrealized investment. The actual realized return on all unrealized investments will depend on the value of the investments at the time of disposition, any related transaction costs, and the manner of disposition. Accordingly, the actual realized returns on all unrealized investments may differ materially for the values indicated herein.

		Summary of L (\$ in million					
_			Value				
Partnership	Year Established	Contributed Capital	Realized	Estimated Unrealized ^(b)	Total	Net IRR(c)	
JEDI I	1993	\$250.0	\$383.0	\$0.0	\$383.0	23%	
JEDI II	1997	118.8	0.0	214.7	214.7	194%	

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⁶²This table presents investment performance information for the outside investor in each of JEDI I and JEDI II.

The amounts shown under the headings "Contributed Capital," "Realized," "Estimated Unrealized," "Total," and
"Net IRR" represent the performance investment for such outside investor.

⁶⁸Unrealized values are accounted for under the fair value accounting methodology. Generally, an investment's "fair value" is an estimate, based on a variety of factors, of the amount that may be realized currently upon an orderly disposition of such investment; under the fair value accounting methodology, the carrying value of investments is periodically increased or decreased to reflect changes in their fair value, even where no realization event has occurred. For publicly traded securities, fair value is based upon quoted market prices. For securities that are not publicly traded, fair value is determined based on other relevant factors, including dealer price quotations, price activity for comparable instruments, and valuation pricing models.

⁶⁴The fees, expenses, and carried interests of JEDI I and JEDI II are different from the proposed terms of the Partnership.

V. MANAGEMENT OF THE PARTNERSHIP

Overview

The General Partner of the Partnership is LJM2 Capital Partners, LLC, a Delaware limited liability company owned by one or more of the Principals. The manager of the Partnership is LJM2 Capital Management, L.P., a Delaware limited partnership ("Manager"), and as such will manage the day-to-day affairs of the Partnership. The Manager is owned, directly and indirectly, by the Principals. Each of the Principals is and will remain an employee of Enron. Enron's Office of the Chairman has waived certain provisions of Enron's employee code of conduct to permit the Principals to form and operate the Partnership, and Enron's Board of Directors has ratified that waiver as it applies to Mr. Fastow. The Principals will devote such of their business time and attention as they deem reasonably necessary to manage the affairs of the Partnership, subject to their obligation to devote their business time and attention primarily to the discharge of their responsibilities as senior financial officers of Enron. The Partnership should also benefit indirectly from time spent by the Principals in evaluating and structuring investments for Enron, as many of these investments may become candidates for investment by the Partnership. The Principals also have plans to hire additional personnel to provide support services to the Partnership. Furthermore, the Manager will enter into a support services agreement with Enron, pursuant to which the Manager will receive and pay for certain support services from Enron. See — "Risk Factors — Dependence on Key Personnel."

Conflict of Interest

One of the most challenging due diligence issues for the Partnership is the potential for a conflict as a result of the Principals' dual positions as Enron employees and Principals of the Partnership. See – "Risk Factors – Dependence on Key Personnel" and "Conflicts of Interest – Dual Role of Principals." Several steps have been taken to assure that the conflict-of-interest issue is fully vetted and appropriate procedures are put in place to allow for operation of the Partnership in situations where conflicts arise. The Partnership will establish an Advisory Committee (as defined below) to provide for an independent review of decisions made by the General Partner in a situation where the General Partner believes a conflict of interest exists. In addition, Richard Causey, Executive Vice President and Chief Accounting Officer of Enron, will, in behalf of Enron, monitor and mediate conflict-of-interest issues between Enron and the Partnership.

Biographies of the Principals

The following are professional biographies of the Principals. Each of the Principals has spent a significant portion of his professional career in energy and communications investing, structured finance, and risk management, and, as a team, the Principals possess the specific expertise necessary to maximize the Partnership's performance.

Andrew S. Fastow

Andrew S. (Andy) Fastow, 37, is Executive Vice President and Chief Financial Officer of Enron and, as such, is responsible for Enron's finance and treasury activity. Previously, Mr. Fastow was a Managing Director with ECT. He joined ECT in 1990 to develop the company's funding business

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and to obtain and manage the debt and equity capital required for ECT's third-party finance business as well as for ECT's physical and financial acquisitions and investments. During 1996, Mr. Fastow led the development of Enron's retail energy business. Mr. Fastow was named CFO of Enron in 1997 and Executive Vice President of Enron in 1999.

Mr. Fastow has been responsible for the formation and operation of three private equity partnerships while at Enron. Currently, Mr. Fastow owns the general partner of LJM Cayman, L.P., a Cayman Islands excepted limited partnership ("LJM1"), an investment partnership with total capital commitments of \$16 million. LJM1 was formed in 1999 with objectives that are substantially similar to those of LJM2.

Prior to joining ECT, Mr. Fastow served as senior director in Continental Bank's Asset Securitization Group in Chicago, where he structured short- and medium-term asset backed securities for commercial banks, leasing companies, and corporate clients.

Mr. Fastow received a B.A. in Economics and Chinese from Tufts University and an M.B.A. in Finance from Kellogg Graduate School of Management at Northwestern University.

Michael J. Kopper

Michael J. Kopper, 34, is a Managing Director in Enron's Global Equity Markets Group. He also manages the general partner of Chewco, an investment fund with approximately \$400 million in capital commitments that was established in 1997 to purchase from Enron an interest in a defined pool of Enron assets. Prior to his current position, Mr. Kopper was a Managing Director in Enron Capital Management (in its Structured Finance Group) arranging financing for electric power projects, oil and gas producers, other supply-side customers, and end-users such as local distribution companies and co-generation facilities.

Before joining Enron, Mr. Kopper was employed by Toronto Dominion Bank from 1991 to 1994. There he specialized in negotiating and structuring project financings. His client focus was primarily non-regulated subsidiaries of electric utility companies, independent power producers, and natural gas pipeline companies. Mr. Kopper specialized in off-balance sheet project and structured financings relying on the interrelationship of cash flows as an economic basis for investment. These investments included natural gas pipelines, natural gas storage fields, and electric co-generation facilities.

From 1988 to 1991, Mr. Kopper was at Chemical Bank where he assisted marketing officers and transaction officers in documenting and closing a variety of financings across a broad spectrum of clients. At Chemical Bank, he focused on non-recourse facilities and project financings in the energy and utility sectors.

Mr. Kopper received his B.A. in economics from Duke University and completed his graduate work in accounting and finance at the London School of Economics.

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Ben Glisan, Jr.

Ben Glisan, Jr., 33, is a Vice President in Enron's Global Equity Markets Group. Prior to his current position, Mr. Glisan worked at Enron Capital Management in its Structured Finance Group. Mr. Glisan has worked at Enron, or an affiliate thereof, for the past three years. Mr. Glisan's responsibilities include leading transaction teams that execute highly complex non-recourse or limited recourse joint venture and asset-based financings.

Before joining Euron, Mr. Glisan worked at Coopers & Lybrand and Arthur Andersen. His responsibilities included providing accounting and finance services principally to financial institutions as well as helping to develop financing transaction structures.

Mr. Glisan received his B.B.A. and his M.B.A. from the University of Texas at Austin.

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VI. OVERVIEW OF ENRON

Enron is one of the world's leading international integrated natural gas and electricity companies. Enron's activities are conducted through its subsidiaries and affiliates, which are principally engaged in the transportation of natural gas through pipelines to markets throughout the U.S.; the generation and transmission of electricity to markets in the northwestern U.S.; the marketing of natural gas, electricity and other commodities, and related risk management and finance services worldwide; the development, construction, and operation of power plants, pipelines, and other energy-related assets worldwide; and the delivery of high bandwidth communication applications throughout the U.S. Enron has a proven track record of creating value in markets that are deregulating and privatizing in North America, Europe, and other areas worldwide.

Transportation and Distribution

Enron's transportation and distribution business is comprised of its North American interstate natural gas transportation systems and its electricity transmission and distribution operations in Oregon.

Interstate Transmission of Natural Gas. Included in Enron's domestic interstate natural gas pipeline operations are Northern Natural Gas Company ("Northern"), Transwestern Pipeline Company ("Transwestern"), and Florida Gas Transmission Company ("Florida Gas") (indirectly 50% owned by Enron). Northern, Transwestern, and Florida Gas are interstate pipelines and are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission. Each pipeline serves customers in a specific geographical area: Northern serves the upper Midwest, Transwestern serves principally the California market and pipeline interconnects on the east end of the Transwestern system, and Florida Gas serves the State of Florida. In addition, Enron holds an interest in Northern Border Partners, L.P., which owns a 70% interest in the Northern Border Pipeline system. One of Enron's subsidiaries operates the Northern Border Pipeline system, which transports gas from western Canada to delivery points in the midwestern United States.

Electricity Transmission and Distribution Operations. Enron conducts its electric utility operations through its wholly owned subsidiary, Portland General Electric Company ("Portland General"). Portland General is engaged in the generation, purchase, transmission, distribution, and sale of electricity in the State of Oregon. Portland General also sells energy to wholesale customers throughout the western U.S. Portland General's Oregon service area is approximately 3,170 square miles. At June 30, 1999, Portland General served approximately 711,000 customers.

Wholesale Energy Operations and Services

Enron's wholesale energy operations and services businesses operate in North America, Europe, and evolving energy markets in developing countries. These businesses provide integrated energy-related products and services to wholesale customers worldwide. Wholesale energy operations and services can be categorized into two business lines: (a) Commodity Sales and Services, and (b) Energy Assets and Investments.

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Commodity Sales and Services. Enron's commodity sales and services operations include the purchase, sale, marketing, and delivery of natural gas, electricity, liquids, and other commodities; the restructuring of existing long-term contracts; and the management of Enron's commodity portfolios.

In addition, Enron provides risk management products and services to energy customers that hedge movements in price and location-based price differentials. Enron's risk management products and services are designed to provide stability to customers in markets impacted by commodity price volatility. Also included in this business is the management of certain operating assets that directly relate to this business, including domestic intrastate pipeline and storage facilities.

Energy Assets and Investments. In the energy assets and investments business, Enron manages and operates assets related to natural gas, electricity, and communications and offers financing alternatives to customers. Activities include developing, constructing, operating, and managing energy assets, including power plants and natural gas pipelines. Enron also provides capital to energy and communication customers seeking debt or equity financing.

Retail Energy Services

EES is a nationwide provider of energy outsource products to U.S. business customers. These services include sales of natural gas and electricity and energy management services directly to commercial and industrial customers as well as investments in related businesses. EES provides end-users with a broad range of energy products and services at competitive prices. These products and services include energy tariff and information management, demand-side services, and financial services.

Communications

Enron is building a long-haul fiber-optic network on strategic routes throughout the United States to create the nation's first Pure IPSM (Internet Protocol) backbone known as the Enron Intelligent Network (the "EIN"). The EIN, which is enabled with intelligent messaging software, enhances Enron's existing national fiber-optic network to bring to market a reliable, bandwidth-on-deman platform for delivering data and applications and streaming rich media to the desktop. Enron's strategy is based on a business model that offers immediate national reach while minimizing capital deployed through strategic alliances with industry technology leaders whose presence, customer access, market share, and content enable Enron to efficiently enter this new, emerging marketplace.

Available Information

Enron is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). Such reports, proxy statements, and other information may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, NW, Room 1024, Washington, DC 20549, and at the following regional offices of the SEC: Midwest Regional Office, Citicorp Center, Suite 1400, 500 West Madison Street, Chicago, IL 60661-2511; and Northeast Regional Office, 7 World Trade Center, New York, NY 10048. Copies of such materials may also be obtained from the Public Reference Section of the SEC

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at 450 Fifth Street, NW, Room 1024, Washington, DC 20549, at prescribed rates or from the site maintained by the SEC on the World Wide Web at http://www.sec.gov. Enron's common stock is listed on the New York, Chicago, and Pacific Stock Exchanges. Reports, proxy statements, and other information concerning Enron may be inspected and copied at the respective offices of these exchanges at 20 Broad Street, New York, NY 10005; 120 South LaSalle Street, Chicago, IL 60603; and 301 Pine Street, San Francisco, CA 94014.

Certain of the information herein relating to Enron has been taken from reports filed by Enron with the SEC. The information regarding Enron herein is qualified by the other information in such reports, including information regarding forward-looking statements.

VII. SUMMARY OF PRINCIPAL TERMS

This Summary of Principal Terms is qualified by reference to the Partnership Agreement of the Partnership and the Subscription Agreement relating thereto (collectively, the "Agreements"). This Memorandum and forms of the Agreements should be reviewed carefully.

The Partnership:

LJM2 Co-Investment, L.P., a Delaware limited partnership (the "Partnership").

Investment Objective and Focus:

The objective of the Partnership is to achieve significant long-term capital appreciation through privately negotiated equity and equity-related investments ("Investments") in companies principally engaged in energy or communications-related businesses. The Partnership expects that Enron will be the Partnership's primary source of investment opportunities and that the Partnership will (i) co-invest with Enron or its subsidiaries in new investments in, or acquisitions of, businesses and assets, and (ii) make investments in, or acquire an investment from Enron or its subsidiaries relating to, existing assets or businesses owned by Enron or its subsidiaries. It is expected that in connection with the foregoing Investments, Enron will retain a significant economic or operating interest in the business or assets in which the Partnership invests. The Partnership may also from time to time make Investments in businesses or assets where Enron has no involvement.

The General Partner:

LJM2 Capital Partners, LLC, a Delaware limited liability company (the "General Partner") owned by one or more of the Principals.

The Manager:

LJM2 Capital Management, L.P., a Delaware limited partnership (the "Manager") owned by the Principals.

The Principals:

Andrew S. Fastow, Michael J. Kopper, Ben Glisan, Jr.

Committed Capital:

The Partnership is targeting an aggregate of \$200 million in capital commitments from prospective investors ("Limited Partners"), although the General Partner reserves the right to accept capital commitments in an aggregate amount less than or greater than \$200 million. The minimum capital commitment for a Limited Partner in the Partnership will be \$5 million; provided that the General Partner reserves the right to reduce the minimum capital commitment for selected investors.

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Sponsor Commitment:

The General Partner will commit to invest, or cause the Manager or other affiliates to invest, a minimum of one percent (196) of the Partnership's aggregate capital commitments in or alongside the Partnership (the 'Sponsor Commitment'). The Sponsor Commitment may be increased (but not decreased) by up to \$1 million annually.

Management of the Partnership: The General Partner will manage the Partnership and will have sole discretionary authority with respect to Investments. The Manager will manage the day-to-day affairs of the Partnership in behalf of the General Partner.

Commitment Period:

All pairtners of the Partnership ("Partners") will be obligated to fund their capital commitments during the period (the "Commitment Period") commencing on the initial closing date and ending on the third anniversary of the final closing date, and thereafter, to the extent necessary, to: (i) cover expenses, liabilities, and obligations of the Partnership, including Management Fees; (ii) complete Investments by the Partnership in transactions which were in process as of (or contemplated by the terms of securities held by the Partnership prior to) the end of the Commitment Period; and (iii) effect additional Investments in companies in which the Partnership had an Investment as of the end of the Commitment Period (in an aggregate amount not to exceed 10% of the Partnership's capital commitments).

Term:

The Partnership will have a term of ten years from the date of the final closing of the Partnership, but may be extended at the discretion of the General Partner for up to a maximum of two additional one-year periods to facilitate an orderly liquidation of the Partnership's assets.

Initial and Subsequent Closings: An initial closing of the Partnership will be held once the General Partner determines that a sufficient minimum amount of capital commitments has been obtained.

The General Partner has the right to accept additional capital commitments and to permit existing Limited Partners to increase their capital commitments to the Partnership in subsequent closings ("Subsequent Closings"). Such newly admitted Limited Partners (or Limited Partners increasing their capital commitments to the Partnership) will make contributions to the Partnership such that each Limited Partner (regardless of when such Limited Partner's capital commitment is made) will

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participate pro rata in all Investments and expenses of the Partnership in the manner provided below.

Subsequent Closings may occur up to 270 days after the initial closing of the Partnership. In the event that Limited Partners fund any portion of their capital commitments to the Partnership prior to the expiration of such 270-day period, each Limited Partner that makes capital commitments on closing dates subsequent to any such funding will pay (i) the amount of its capital commitment that would have been funded if such Limited Partner (and all other Limited Partners) had funded its capital commitment at the time of such funding, and (ii) interest on the amount set forth in clause (i) above from the date of each such funding at the prime rate plus 2%. Any amounts paid under clauses (i) and (ii) above shall be distributed as follows: (x) to the Manager in an amount equal to all Management Fees (as defined below) payable in respect of such Limited Partner's commitment retroactive to the initial closing date (together with any interest thereon at the prime rate plus 2% from the initial closing date), and (y) the remaining amount to the Partners that participated in prior closings ratably based on the amount and timing of their previous capital contributions to the Partnership.

Drawdowns; Reinvestment:

Each Partner's capital commitment will be payable when called by the General Partner to make Investments and to meet anticipated Partnership expenses and liabilities (including Management Fees). Any amounts returned to the Partners (i) as a distribution of Investment Proceeds (as defined below) prior to the second anniversary of the final closing date, (ii) in connection with the subsequent admission of additional Limited Partners (less any interest received with respect thereto), or (iii) as a return of capital contributions made in respect of an unconsummated Partnership Investment, may, in each case, be recalled and will be available for future investments.

If 25% or more of the Limited Partner commitments are from employee benefit plans or other funds subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), each Limited Partner will pay its prorata share of each quarterly Management Fee and other Partnership expenses directly to the General Partner or the Manager, as appropriate, until the Partnership has qualified for the "venture capital operating company" exception to the Department of Labor plan asset regulations (i.e., until

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the Partnership has made its first qualifying investment), but for purposes of calculating when each Limited Partner has fulfilled its commitment and for purposes of calculating gains, losses, distributions, and sharing ratios, all amounts so paid, as well as any corresponding amounts payable by the General Partner to fulfill its commitment, will be treated as having been paid into the Partnership as a capital contribution by each Partner.

Co-Investment Opportunities:

Where possible and appropriate, the General Partner intends, but will be under no obligation, to provide an opportunity to the Limited Partners to co-invest alongside the Partnership.

Diversification:

Without the approval of a majority in interest of the Limited Partners, no more than 10% of the total capital commitments of the Partners may be invested in a single portfolio company.

Distributions:

Distributions of the net proceeds from disposition of Investments, as well as distributions of securities in kind, together with any dividends, interest, or other investment income (other than certain short-term investment income) received with respect to Investments (collectively, "Investment Proceeds"), generally will be made in the following order of priority:

- (a) first, 100% to the Partners in proportion to funded commitments until the cumulative amount distributed equals (i) the aggregate funded capital commitments of the Partners, and (ii) a preferred return on amounts included in clause (i) at a rate of 8% per annum, compounded annually (the "Preferred Return");
- (b) second, 100% to the General Partner until such time as the General Partner has received, pursuant to this paragraph (b), 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and
- (c) third, (i) 80% to all Partners in proportion to funded commitments, and (ii) 20% to the General Partner in respect of its carried interest.

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Prior to the second anniversary of the final closing date. the General Partner will have the right to elect to distribute, hold, or re-invest Investment Proceeds (and for purposes of clause (c) of the distribution provisions above, the General Partner's funded commitment will be deemed to include 20% of the realized gains upon Investments, the Investment Proceeds from which were re-invested in accordance with this sentence). After the second anniversary of the final closing date, the General Partner will distribute (i) the net proceeds from the sale or other disposition of Investments within 180 days of receipt by the Partnership, and (ii) dividends, interest, and other short-term investment income at least annually, each subject to the availability of cash after paying Partnership expenses and setting aside appropriate reserves by the General Partner for reasonably anticipated liabilities and obligations of the Partnership.

Prior to the termination of the Partnership, distributions will be in cash or marketable securities. Upon termination of the Partnership, distributions may also include restricted securities or other assets of the Partnership.

Notwithstanding the foregoing, the General Partner may cause the Partnership to make distributions from time to time to the General Partner in amounts sufficient to permit the payment of the tax obligations of the General Partner and its members in respect of allocations of income related to the carried interest. The General Partner will endeavor to make annual aggregate distributions to the Limited Partners in an amount sufficient to permit payment of the Limited Partners' tax obligations in respect of their interests in the Partnership. Cash held by the Partnership prior to expenditure or distribution will be invested in short-term, high-grade instruments.

The amount of any taxes paid by or withheld from receipts of the Partnership allocable to a Partner from an Investment will be deemed to have been distributed to such Partner.

Allocation of Income, Expenses, Gains, and Losses:

Income, expenses, gains, and losses of the Partnership will generally be allocated among the Partners in a manner consistent with the distribution of proceeds described ir "Distributions" above.

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Management Fee:

During the Commitment Period, the Partnership will pay the Manager an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 2.0% of the aggregate commitments of Limited Partners. After the expiration of the Commitment Period, the Management Fee will equal 2.0% of an amount ("Capital Under Management") equal to the lesser of (i) the aggregate commitments of the Limited Partners and (ii) the aggregate amount invested by the Partnership in Investments. Capital Under Management will be calculated as of the beginning of each semi-annual period to which the Management Fee applies.

Operating Expenses:

The Manager will pay all ordinary operating expenses of the Partnership for salaries, rent, and similar expenses in connection with the investigation of investment and disposition opportunities for the Partnership and monitoring of the Partnership's Investments (to the extent not reimbursed by a portfolio company), except as set forth below under "Partnership Expenses."

Partnership Expenses:

The Partnership will pay or reimburse the General Partner, the Manager, and their respective affiliates for. (i) out-ofpocket expenses of the General Partner and Manager (including third-party fees and expenses) incurred in connection with unconsummated Investments; (ii) out-of-pocket expenses, including, but not limited to, all expenses incurred in connection with the origination, making, holding, monitoring, sale, or proposed sale of Investments (not otherwise paid in connection with the closing of the proposed origination or disposition), litigation or other extraordinary expenses, insurance, and indemnity expenses and expenses of liquidating the Partnership; and (iii) any other direct expenses incurred in connection with the Investments. The Partnership will also be responsible for all routine administrative expenses of the Partnership, including, but not limited to, the cost of the preparation of the annual audit, financial statements, and tax returns, expenses of the Advisory Committee, cash management expenses, and legal expenses.

Offering and Organizational Expenses:

The Partnership will bear all legal, accounting, and other offering and organizational expenses, including out-of-pocket expenses of the General Partner or the Manager incurred in connection with the formation of the Partnership. The Manager will bear the cost of placement

agent fees charged in connection with the formation of the Partnership.

Transaction, Break-up, and Advisory Fees:

The General Partner and the Manager will not charge any transaction fees, break-up fees, advisory, monitoring, or similar fees in connection with actual or prospective Investments.

Other Investment Activities:

Without the approval of a majority in interest of Limited Partners, none of the General Partner, the Manager, and the Principals will commence investment activities for a Competing Fund (as defined below) in which such entity or person acts as sponsor or general partner until the earlier of (i) the termination of the Commitment Period or (ii) the date on which at least 70% of the total aggregate capital commitments of the Partnership have been taken down or committed. However, there will be no restrictions on the activities of the Principals in their capacities as employees of Enron; and these restrictions will not bind or otherwise obligate Enron. A "Competing Fund" means a pooled equity investment vehicle other than the Existing Funds (as defined below), the Partnership, and any Parallel Investment Vehicle (as defined below) which has investment objectives and strategies that are substantially similar to those of the Partnership and does not include any pooled equity investment vehicle managed, sponsored, or controlled by Enron or its subsidiaries or affiliates or any Parallel Investment Vehicle.

Allocation of Investment Opportunities:

The Principals currently are involved in the management of investment limited partnerships, including LJM1 and Chewco (the "Existing Funds"), that have investment objectives and strategies that are substantially similar to those of the Partnership. The General Partner expects that to the extent that both the Partnership and the Existing Funds would have capital available for investment in ar opportunity, the Principals would cause the investmen opportunity to be allocated to the Partnership and the Existing Funds in a manner determined to be fair and reasonable to both (taking into account the amount o available capital for each Partnership) consistent wit prudent portfolio management and fiduciary concern: Neither Enron nor any Existing Fund in which Enron ha an interest has any obligation to offer investmes opportunities to the Partnership, and the ability of Enronany such Existing Fund to offer certain investments m be restricted by contractual obligations to third parties.

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Advisory Committee:

An Advisory Committee, whose members will be selected representatives of the Limited Partners, will be established. The Advisory Committee will advise the General Partner and resolve issues involving conflicts of interest presented by the General Partner.

Parallel Investment Vehicles:

The General Partner may establish one or more additional entities or other similar arrangements (a "Parallel Investment Vehicle") prior to the expiration of the 270-day period following the initial closing to facilitate the ability of certain types of investors to invest in parallel with the Partnership. If formed, any Parallel Investment Vehicle will invest in each Investment on a pro rata basis (based on available capital) and on substantially the same terms and conditions as the Partnership.

Alternative Investment Structure:

If the General Partner determines in good faith that for legal, tax, regulatory, or other reasons it is in the best interests of the Partners that an Investment be made through an alternative investment structure, the General Partner may structure the making of all or any portion of such Investment outside of the Partnership by requiring the Partnership or other entity (other than the Partnership) that will invest on a parallel basis with or in lieu of the Partnership, as the case may be.

Exculpation and Indemnification:

None of the Principals, the General Partner, the Manager, their respective affiliates, and each of their respective officers, directors, members, managers, partners, employees, agents, and representatives (each, an "Indemnified Person") will be liable to the Partnership or to any Limited Partner for any act or omission by such Indemnified Person in connection with the conduct of the business of the Partnership, unless such act or omission constitutes such Indemnified Person's bad faith, gross negligence, or willful misconduct. The Partnership will indemnify each Indemnified Person from and against any losses, claims, liabilities, damages, and expenses (including legal fees and expenses, judgments, and amounts paid in settlement) incurred by such Indemnified Person in connection with the Partnership's activities, unless such losses, claims, liabilities, damages, or expenses result from such Indemnified Person's bad faith, gross negligence, or willful misconduct. The General Partner may require the Partners to return distributions made to each such Partner for the purpose of meeting such

Partner's pro rata share of the Partnership's indemnification obligations referred to above or to satisfy any other Partnership obligations (subject to certain limitations).

Limited Partner Withdrawal and Transfer:

Limited Partners generally may not withdraw from the Partnership. In addition, no Limited Partner may transfer or assign any of its interests, rights, or obligations with respect to its interest, except with the written consent of the General Partner, which written consent may be given or withheld in the General Partner's sole and absolute discretion. No such assignee, purchaser, or transferee of an interest may be admitted as a substitute Limited Partner without the written consent of the General Partner, which written consent may be given or withheld in its sole and absolute discretion. The General Partner may require: Limited Partner to withdraw from the Partnership unde certain limited circumstances. Subject to certain conditions, the General Partner may (or may be require to) permit a Limited Partner to withdraw from the Partnership under certain limited circumstances.

ERISA Considerations:

The General Partner intends to cause the Partnership t qualify as a "venture capital operating company" under th Department of Labor plan asset regulations.

Tax Considerations:

An investment in the Partnership will have particult consequences for certain kinds of investors under the U.: Federal income tax laws. The Partnership may engage transactions that will cause tax-exempt Limited Partners recognize "unrelated business taxable income" ("UBTI within the meaning of Section 512 of the Internal Revent Code of 1986, as amended (the "Code"), as a result of the investment in the Partnership, and the Partnership m engage in transactions that will cause foreign Limit Partners to recognize income treated as effective connected with the conduct of a trade or business with the United States within the meaning of Section 864 of t Code as a result of their investment in the Partnersh Prospective investors should consult with their own! advisors as to the consequences of making an investmin the Partnership. The General Partner intends to we with prospective investors to address their individual concerns.

Reporting:

The General Partner will send the Limited Partners wit 120 days after the end of each fiscal year of the Partners

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(or as soon thereafter as practicable in the event of delays in receiving information from portfolio companies) an audited annual financial report and tax information necessary for completion of each Limited Partner's U.S. Federal income tax return. The Partnership will also send its Limited Partners unaudited financial statements and other information within 60 days after the end of each quarter.

Auditors:

PricewaterhouseCoopers.

Legal Counsel:

Kirkland & Ellis.

Placement Agent:

Merrill Lynch & Co.

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VIII. RISK FACTORS

Potential investors should be aware that an investment in the Partnership involves a high degree of risk. There can be no assurance that the Partnership's investment objectives will be achieved or that a Limited Partner will receive a return of its capital. The following considerations, among others, should be evaluated carefully before making an investment in the Partnership.

Dependence on Access to Enron Investment Opportunities

The Partnership's investment strategy is dependent upon the Partnership's access to investment opportunities from Enron. The Principals expect that Enron will continue for the foreseeable future to generate sufficient attractive investment opportunities to enable the Partnership to execute its investment strategy. Enron has no obligation to present investment opportunities to the Partnership, and no assurances can be given that Enron will continue to generate suitable investment opportunities or make such investment opportunities available to the Partnership. Changes in law, regulation, accounting principles, credit, capital or commodities markets, general or sector-specific economic conditions, or other changes may cause Enron to cease, or slow the rate of, its investment activities or to decrease its reliance on capital provided by co-investors or purchasers of investments from Enron. Enron may determine not to make investment opportunities available to the Partnership for any reason, including that the Principals, or certain of them, have ceased to be employees of Enron. The Principals may not be involved in all investments that Enron makes, and their involvement in some of Enron's investments may be limited. Enron will have no obligation to offer investment opportunities to the Partnership, and the ability of Enron to make investments available to the Partnership may be restricted by contractual obligations to third parties.

Highly Competitive Market for External Investment Opportunities

The activity of identifying, completing, and realizing private equity investments is highleompetitive and involves a high degree of uncertainty. Although the Partnership expects to invest principally in companies and assets owned or controlled by Enron, the Partnership also may seek to invest in other external investment opportunities. In these situations, the Partnership will be competing with other private equity investment vehicles, as well as individuals, financial institution and other institutional investors.

Dependence on Key Personnel

The Limited Partners will be relying entirely upon the General Partner and the Manager to conduland manage the affairs of the Partnership. The General Partner and the Manager depend upon the efforts and expertise of the Principals to enable them to render investment management services the Partnership. The Principals are obligated to dedicate their business time and attention primariate to the discharge of their responsibilities as management employees of Enron. In addition, the Principals also dedicate a portion of their business time and attention to managing existing investment limited partnerships. Subject to the demands of these other responsibilities, the Princip will devote as much of their business time and attention as they deem to be reasonably necessary manage the affairs of the Partnership. There can be no assurance that the Principals will continue

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be employed by Enron throughout the life of the Partnership. As noted above, if the Partnership on Bands are the partnership of the Partnership on the partnership of the Partnership on the partnership of the Partnership of were to lose the services of the Principals, the Partnership could be adversely affected.

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Limited Operating History

The Partnership, the General Partner, and the Manager will be newly formed entities, and none of the Partnership, the General Partner, and the Manager has an operating history of making private equity investments upon which prospective investors may base an evaluation of the likely performance of the Partnership.

Limited Sector Focus

The Partnership intends to concentrate on investments in energy- and communications-related businesses, and will be less diversified for industry risk than other, more broadly focused investment vehicles. As a result of the Partnership's sector focus, the effect on the Partnership of industry or general economic factors that have a greater impact upon the energy or communications sector than other industry sectors may be more pronounced than in more broadly focused investment vehicles.

Non-Control Investments

The Partnership expects to make Investments in portfolio companies over which Enron will acquire or retain ownership or control. The Partnership may not have the power, acting alone, to control a portfolio company's board of directors, management, or operations. In addition, the Partnership may not have the ability, acting alone, to cause a portfolio company to take, or refrain from taking, certain actions, or to cause a portfolio company to engage, or refrain from engaging, in material transactions, which conceivably could have an adverse effect on the Partnership's Investment, and the Partnership may not have the ability, acting alone, to control the timing of the liquidation of its Investment. In such Investments, the Partnership may be forced to rely on the fact that Enron will possess some or all of the foregoing control rights and that the interests of the Partnership and Enron will be sufficiently aligned such that Enron will exercise those rights in a manner that will protect the Partnership's Investment. Enron will have no obligation to align its interests with those of the Partnership.

Illiquid and Long-Term Investments .

Although Investments may generate some current income, the return of capital and the realization of gains, if any, from an Investment generally will occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, frequently this will not occur for a number of years after the Investment is made. As noted above, in certain cases, the Partnership may be dependent upon Enron to create liquidity through a sale of, or other "exit" transaction involving, the portfolio company in which the Partnership holds an investment. It is unlikely that there will be a public market for the securities held by the Partnership at the time of their acquisition. The Partnership generally will not be able to sell its securities publicly unless such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases, the Partnership may be prohibited by contract from selling certain securities for a period of time.

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Non-U.S. Investments

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The Partnership may invest in portfolio companies organized and operating outside of the U.S. Foreign securities involve certain risks not typically associated with investing incidence including risks relating to: (i) currency exchange matters and costs associated with conversion o investment capital and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including potential price volatility in and relative illiquidity of some foreign securities markets and the absence of uniform accounting and financial reporting standard and disclosure requirements; (iii) certain economic and political risks, including potential restriction on foreign investment and repatriation of capital and the risks of political, economic, or social instability; and (iv) the possible imposition of foreign taxes on income and gains recognized wit respect to such securities.

Passive Investment in Interests .

Limited Partners will be relying entirely on the General Partner and the Manager to conduct an manage the affairs of the Partnership. The Agreement will not permit the Limited Partners to engag in the active management and affairs of the Partnership. Because specific Investments of the Partnership have not yet been identified, the Limited Partners must rely on the ability of the Gener Partner to make appropriate Investments for the Partnership and to dispose of such investments ar of the Manager to manage such Investments.

No Market for Partnership Interests

The Interests have not been registered under the Securities Act, the securities laws of any state, the securities laws of any other jurisdiction and, therefore, cannot be resold unless they a subsequently registered under the Securities Act and other applicable securities laws or exemption from registration are available. It is not contemplated that registration of the Interests under the Securities Act or other securities laws will ever be effected. There is no public market for the Interests, and one is not expected to develop. A Limited Partner will not be permitted to assign interests, except by operation of law, without the prior written consent of the General Partner, which may be given or withheld in the General Partner's sole and absolute discretion. Except in extreme limited circumstances, voluntary withdrawals from the Partnership will not be permitted. Limit Partners must be prepared to bear the risks of owning Interests for an extended period of time.

Tax-Exempt Investors

The Partnership may engage in transactions that would generate UETL See – "Summary Principal Terms – Tax Considerations" and "Certain Tax and Regulatory Considerations – Fede Income Tax Matters – General."

Foreign Investors

The Partnership may engage in transactions that will cause foreign Limited Partners to recogn income effectively connected with the conduct of a trade or business within the U.S. Sc "Summary of Principal Terms – Tax Considerations" and "Certain Tax and Regula"

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Considerations – Federal Income Tax Matters – Certain U.S. Tax Considerations for Foreign Busines (1978) Foreign Consideration

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IX. CONFLICTS OF INTEREST

Investors should be aware that there will be occasions where the General Partner and its affiliates may encounter potential conflicts of interest in connection with the Partnership's activities. The following discussion enumerates certain potential conflicts of interest which should be carefully evaluated before making an investment in the Partnership.

Dual Role of Principals

The Principals are employees of Enron and owe fiduciary duties to Enron and its subsidiaries; such fiduciary duties may from time to time conflict with fiduciary duties owed to the Partnership and its partners. Accordingly, the Principals, and entities controlled by the Principals, may take (or refrain from taking) such actions in behalf of the Partnership as the Principals in good faith determine to be necessary or appropriate in view of such conflicting duties. The Principals intend to consult regularly with the Advisory Committee regarding potential conflicts of interest regarding transactions with or involving Enron and its affiliates.

Transactions Involving Euron

To execute the Partnership's investment strategy (to capture investment opportunities generated by Enron), the Partnership will regularly evaluate, structure, negotiate, consummate, hold, manage, and liquidate Investments in companies in which Enron or its affiliates have an existing investment or which Enron or its affiliates control (including investments acquired directly from Enron or its affiliates). The evaluation (and valuation) of Investment opportunities and the negotiation of the price, terms, and conditions of an Investment will be conducted in behalf of the Partnership by the Principals acting in behalf of the General Partner.

Portfolio companies in which the Partnership invests may also engage in transactions with Enron or its affiliates, and profits derived by Enron or its affiliates from such transactions will not be shared with the Partnership.

In many cases, the Partnership will have a non-control Investment in a portfolio company controlled by Enron or its affiliates. The Partnership may invest in securities that are different from those held by Enron or may hold securities with a cost basis different from those held by Enron. Factors that influence Enron's or its affiliates' decision to exercise their rights in respect of their investment in such company (such as a decision to sell the company) may be more or less significant from the Partnership's perspective.

Carried Interest

The existence of the General Partner's carried interest could be viewed as an incentive for the General Partner to make riskier or more speculative investments in behalf of the Partnership that would be the case in the absence of this arrangement.

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Diverse Limited Partner Group

The Limited Partners may have conflicting investment, tax, and other interests with respect to their investments in the Partnership. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of Investments made by the Partnership, the structuring or the acquisition of Investments, and the timing of disposition of Investments. As a consequence, conflicts of interest may arise in connection with decisions made by the General Partner, including with respect to the nature or structuring of Investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the Partnership, the General Partner will consider the investment and tax objectives of the Partnership and its Partners as a whole, not the investment, tax, or other objectives of any Limited Partner of the Partnership individually.

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X. CERTAIN TAX AND REGULATORY CONSIDERATIONS

Federal Income Tax Matters

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The following discussion summarizes certain U.S. Federal income tax considerations generally applicable to a person considering the acquisition of an Interest. The discussion does not deal with all tax considerations that may be relevant to specific investors or classes of investors in light of their particular circumstances. In particular, the discussion does not address any considerations applicable to persons who acquire Interests in connection with the performance of services. Furthermore, no state, local, or foreign tax considerations are addressed. ALL PERSONS CONSIDERING AN INVESTMENT IN THE PARTNERSHIP ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE SPECIFIC U.S. FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES TO THEM OF SUCH INVESTMENT.

The Partnership will receive an opinion from Kirkland & Ellis, counsel for the Partnership, that the Partnership will be classified for federal income tax purposes as a partnership rather than as an association taxable as a corporation under currently applicable tax laws. Opinions of counsel, however, are not binding on the Internal Revenue Service ("IRS") or the courts, and no ruling has been or will be requested from the IRS. No assurance can be given that the IRS will concur with such opinion or the tax consequences set forth below.

The Partnership will not pay federal income taxes, but each Partner will be required to report its distributive share (whether or not distributed) of the income, gains, losses, deductions, and credits of the Partnership (which may include the income and other tax items of any partnerships in which the Partnership invests). It is possible that the Partners could incur income tax liabilities without receiving from the Partnership sufficient distributions to defray such tax liabilities. For example, the Partners will be allocated Partnership income and gains for U.S. Federal income tax purposes even if funds from such Partnership income and gains are used by the Partnership to make Investments or to pay Partnership expenses and liabilities and are not distributed to such Partners (or are distributed but are then recalled by the Partnership for future Investments). The Partnership Agreement will provide that the General Partner may elect to re-invest rather than distribute (or distribute and recall for investment) Investment Proceeds prior to the second anniversary of the Partnership's final closing date. The Partnership's taxable year will be the calendar year, or such other year as required by the Code. Tax information will be distributed to each Partner annually.

The following discussion summarizes certain significant U.S. Federal income tax consequences to a prospective investor who (i) owns, directly or indirectly through another partnership, an Interes as a Limited Partner, (ii) is, with respect to the U.S., a citizen or resident individual, a domestic corporation or partnership, an estate the income of which is subject to U.S. Federal income taxation regardless of its source, or a trust for which a court in the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantia decisions, as such terms are defined for U.S. Federal income tax purposes (a "U.S. Investor"), an (iii) is not tax-exempt.

"FOIA CONFIDENTIA! TREATMENT REQUEST BY ANDREW FASTOW Interest on any amount borrowed by a Limited Partner (other than a corporation) to purchase an Interest in the Partnership will generally be "investment interest," subject to a limitation on deductibility. In general, investment interest will be deductible only to the extent of the taxpayer's "net investment income." For this purpose "net investment income" will generally include net income from the Partnership and other income from property held for investment (other than property which generates passive activity income). However, long-term capital gain is excluded from the definition of net investment income unless the taxpayer makes a special election to treat such gain as ordinary income rather than long-term capital gain. Interest that is not deductible in the year incurred because of the investment interest limitation may be carried forward and deducted in a future year in which there is sufficient investment income.

The Agreement will contain provisions intended to comply substantially with IRS regulations describing partnership allocations that will be treated as having "substantial economic effect," and hence, the Partnership's allocation will be respected for tax purposes. However, those regulations are extremely complex, and there can be no assurance that the allocations of income, deduction, loss, and gain for tax purposes made pursuant to the Partnership Agreement will be respected by the IRS, if reviewed. Even if the IRS were to review the Partnership allocations and determine that they do not technically comply with such regulations, such allocations would be determined "in accordance with each partner's interest in the partnership (determined by taking into account all facts and circumstances)." The allocations under the Partnership Agreement should, in most cases, be substantially identical to each "partner's interest in the partnership."

Under Section 67 of the Code, a non-corporate taxpayer (including a shareholder of an S corporation) may deduct certain miscellaneous deductions (e.g., investment advisory fees, tax preparation fees, unreimbursed employee expenses, and subscriptions to professional journals) only to the extent such deductions exceed, in the aggregate, 2% of the taxpayer's adjusted gross income. Each Limited Partner's share of the Management Fee and other Partnership expenses probably will be treated as miscellaneous itemized deductions. Accordingly, a Limited Partner who is an individual generally will be permitted to deduct such expenses only to the extent that the sum of such expenses plus the individual's other miscellaneous iternized deductions exceed 2% of the individual's adjusted gross income. However, corporate Limited Partners (other than S corporations) and tax-exempt organizations are not affected by the 2% floor (unless, in the case of a tax-exempt organization, it is not a corporation and has unrelated business taxable income from the Partnership). Section 68 of the Code separately imposes limitations on the deductibility of itemized deductions by an individual whose adjusted gross income exceeds a specified amount (e.g., \$126,600 for unmarried individuals, or married individuals filing jointly, for 1999, adjusted annually for inflation), which may also affect the ability of any Partner who is an individual to deduct his or her share of the Management Fee and other Partnership expenses. A Limited Partner who is an individual also generally will not be permitted to deduct his or her share of the Management Fee and other Partnership expenses for purposes of calculating such individual's alternative minimum tax liability.

Non-corporate investors (and certain closely held, personal service, and S corporations) are subject to the limitations on using losses from passive business activities to offset business income, salary income, and portfolio income (i.e., interest, dividends, capital gains from portfolio investments, royalties, etc.). The Partnership's distributive share of income or losses from a portfolio company which is a partnership or limited liability company engaged in business generally will be treated as passive activity income or losses. Accordingly, an investor will be subject to the passive activity loss

limitations on the use of any such portfolio company losses, but any such portfolio company income may be offset by other passive losses (such as losses from limited partnership interests in tax shelters). Other partnership income generally will be treated as portfolio income. Therefore, an investor generally will not be able to use passive activity losses to offset such portfolio income from the Partnership.

Except as described in the following paragraph, a tax-exempt Limited Partner's distributive share of the Partnership's income should consist principally of income from dividends, interest, and capital gain from corporate stock and corporate securities—types of income which (subject to the discussion of debt-financing below) are expressly excluded UETL

However, the Partnership may invest in securities (including equity interests in partnerships and limited liability companies) that will generate UBTI ("UBTI Investments"). Each tax-exempt Limited Partner generally would be subject to U.S. Federal income tax on its share of any UBTI earned by the Partnership (and the receipt of UBTI could give rise to additional tax liability for certain limited categories of tax-exempt investors).

If a tax-exempt Limited Partner borrows any amount to fund its capital commitment, some or all of its distributive share of income from the Partnership could be UBTI, which could be taxable to such tax-exempt Limited Partner (and which could give rise to additional tax liability for certain limited categories of tax-exempt Limited Partners). Moreover, debt incurred either by the Partnership directly or in connection with a UBTI Investment could give rise to UBTI to a tax-exempt Limited Partner.

Certain U.S. Tax Considerations for Foreign Investors

Limited Partners that are not U.S. Investors and are not tax-exempt ("Foreign Investors") generally should not be subject to U.S. Federal income tax on gains from the sale of Investments. Notwithstanding the foregoing, a Foreign Investor's share of the net gain recognized upon disposition by the Partnership of a United States real property interest would be treated for Federal income tax purposes as if it were effectively connected with a U.S. trade or business. In general, the Partnership would be required to withhold tax from allocations to Foreign Investors of such net gain and each Foreign Investor would be required to report its share of such gain on a U.S. Federal income tax return. For this purpose, the term "United States real property interest" generally would include: (i) shares of stock in a U.S. corporation that does not have a publicly traded class of stock outstanding if 50% or more of the value of the corporation's assets at any point during the preceding five years consisted of interests in U.S. real property, and (ii) shares of stock in a U.S. corporation that does have a publicly traded class of stock outstanding where (A) the corporation satisfies the real property ownership test described in clause (i) above, and (B) the Partnership held (directly or pursuant to certain attribution rules) more than 5% of the outstanding stock of any publicly traded class of shares or held shares of non-publicly traded stock with a fair market value greater than that of 5% of the publicly traded class of the corporation's stock with the lowest fair market value. In addition, if the Partnership invests in partnerships or other persons that generate income that is treated as effectively connected with a U.S. trade or business (including gain recognized upon disposition of an United States real property interest), Limited Partners will be subject to U.S. Federal income tax, including withholding tax (and possibly the branch profits tax), on their share of such income and on their share of gain realized on the Partnership's disposition of its interest in

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such other partnership's (or other person's) assets attributable to such U.S. trade or business, and they will be required to file appropriate returns. Dividends paid by portfolio companies generally will, and interest paid by portfolio companies and capital gains upon realization of certain Investments may, in certain circumstances, be subject to withholding taxes, including U.S. withholding taxes, but such taxes may be reduced or eliminated by treaty.

THIS MEMORANDUM DOES NOT ADDRESS ALL UNITED STATES FEDERAL TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP THAT MAY APPLY TO AN INVESTOR, AND IT DOES NOT ADDRESS ANY STATE, LOCAL, OR FOREIGN TAX CONSEQUENCES OF SUCH AN INVESTMENT. IN ADDITION, THE ABOVE DISCUSSION IS BASED ON CURRENT PROVISIONS OF THE CODE, TREASURY REGULATIONS, ADMINISTRATIVE RULINGS, AND JUDICIAL DECISIONS, AND NO ASSURANCE CAN BE GIVEN THAT FUTURE LEGISLATIVE, JUDICIAL, OR ADMINISTRATIVE ACTION WILL NOT AFFECT THE ACCURACY OF ANY STATEMENT IN THIS DISCUSSION, POSSIBLY WITH RETROACTIVE EFFECT. THE TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP MAY VARY DEPENDING ON AN INVESTOR'S PARTICULAR CIRCUMSTANCES. FOR THE FOREGOING REASONS, EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX COUNSEL AS TO THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP.

Certain ERISA Considerations

The U.S. Department of Labor ("DOL") has issued regulations under ERISA, which generally provide that when an employee benefit plan invests in an entity such as the Partnership, the plan's assets include both the limited partnership interest and an undivided interest in each of the underlying assets of the Partnership, unless (i) the equity participation in the Partnership by benefit plan investors is not "significant" (defined as 25% of any class of the Partnership equity interests), (ii) the Partnership complies with the "venture capital operating company" ("VCOC") exception, or (iii) the Partnership qualifies for another exception under the DOL plan asset regulations. If the underlying assets of the Partnership were to be considered plan assets of the ERISA plan investor, the General Partner of the Partnership would be an ERISA fiduciary and the Partnership would be subject to undesirable ERISA requirements with which the Partnership generally cannot comply.

The Partnership will not limit investment by benefit plan investors, and it is therefore possible that investment by benefit investors will be "significant." However, the Partnership has been designed and is intended to be managed to comply with the VCOC exception. If it qualifies for the VCOC exception, the Partnership will not be subject to the ERISA fiduciary rules and the underlying assets of the Partnership will not be deemed "plan assets" of any ERISA plan investor. The Partnership will qualify if it (i) has direct contractual rights to substantially participate in or substantially influence the management of operating companies comprising at least 50% of its portfolio (measured by cost), and (ii) in the ordinary course of its business, actively exercises such management rights with respect to at least one of the operating companies in which it invests. An "operating company" is an entity engaged in the production or sale of a product or service, as distinguished from a reinvesting entity.

"FOIA CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASTOW"

The determination as to whether the fund qualifies as a VCOC is made when the Partnership making first long-term investment and thereafter on an ongoing basis. The Partnership must meet the 50 test at the time it makes its first long-term investment and on at least one day during each 90-drannual valuation period (generally beginning on the anniversary of the Partnership's first long-ter investment) thereafter. The Partnership also would cease to qualify if it did not in the ordina course of its business actually exercise its management rights with respect to at least one portfol company each year. Special rules will apply to any wind-up of the Partnership when it enters in it "distribution period" as defined in the DOL regulations.

Prospective Limited Partners who are subject to the provisions of ERISA (such as pension funds certain insurance company accounts) should consult with their counsel and advisors as to t provisions of ERISA applicable to an investment in the Partnership.

Certain Regulatory Matters

Investment Company Act of 1940, as amended (the "1940 Act")

The Partnership has not registered and does not plan to register under the 1940 Act in reliance the exception provided in Section 3(c)(7) of the 1940 Act. As a condition to its admittance to 1 Partnership, each prospective Limited Partner will be required to represent to the Partnership and General Partner that such prospective Limited Partner is a "qualified purchaser" within the meani of Sections 2(a)(51) and 3(c)(7) of the 1940 Act and the regulations promulgated thereunder.

Securities Act

The offer and sale of the Interests will not be registered under the Securities Act in reliance upon exemption from registration provided by Section 4(2) thereof and Regulation D promulga thereunder. Each purchaser must be an "accredited investor" (as defined in Regulation D under Securities Act) and will be required to represent, among other customary private placem representations, that it is acquiring its Interest in the Partnership for its own account for investm purposes only and not with a view to resale or distribution.

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"FOIA CONFIDENTIAL TREATMENT REQUESTE BY ANDREW FASTOW"

Merrill Lynch & Co. World Financial Center North Tower New York, NY 10281-1326 Telephone: (212) 449-1958 Fax: (212) 449-7969 LJM2 Co-Investment, L.P. 1831 Wroxton Road Houston, TX 77005 Telephone: (713) 853-7427 Fax: (713) 646-2300

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LJM2 Co-Investment, L.P. Limited Partner Groups

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American Home Assurance Company	\$30 million	Insurance Co.
(AIG)	\$10 million	Adv. Comm.
SunAmerica	\$40 million	
AON Pension Plan	\$5.0 million	Pension Fund
David Greenberg	\$0.1 million	
	\$5.1 million	Adv. Comm.
Acquisition Fund Four, L.P.	\$5 million	Fund
Robert Basham	\$3 million	Ind.
BT Investment Partners	\$10 million	Fin. Inst.
Di mittodiani i mana		Adv. Comm.
Chemical Investments	\$10 million	Fin. Inst.
CIBC Capital Corporation	\$15 million	Fin. Inst.
0200 041 03-1-1-1-1		Adv. Comm.
C&I Partners	\$2 million	Ind.
Citicorp	\$10 million	Fin. Inst.
Eugene Conese	\$1.5 million	Ind.
Conese Family Investments L.P.	\$1.5 million	
•	\$3.0 million	
CRM 1999 Enterprise Fund	\$3 million	Fund
(Cramer Rosenthal McGlynn)		
DLJ Fund Investment Partners III, L.P.	\$5 million	Fund
Lakeview Direct Investments, L.P.	\$1.5 million	Fund
Thomas Elden Investment Trust	\$0.5 million	
(GP of Lakeview)	\$2.0 million	
<u></u>	- 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	
Ethervest, LLC	\$1 million	Ind.
(Tully Capital Partners)		
First Union Investors, Inc.	\$25 million	Fin. Inst.
Fort Washington Private Equity Investors II, L.P.	\$10 million	Fund
Freidenrich Family Partnership, L.P.	\$4 million	Ind.
Freidenrich Twenty-Fifty, Ltd.	\$2 million	
	\$6 million	
Institute for Advanced Studies	\$5 million	Fund
J.P. Morgan Partnership Investment Corporation	\$12 million	Fin. Inst.
Sixty Wall Street Fund, L.P.	\$ 3 million	Adv. Comm
	\$15 million	. 1

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client Permanent Subcommittee on Investigations
EXHIBIT #250

Kleinwort Benson Holdings, Inc.	\$5.0 million	Fin. Inst.
Ironwood Investors, LLC	\$0.9 million	
(Dresdner Execs)	\$5.9 million	Adv Comm.
LBI Group Inc.	\$10 million	Fin. Inst.
(Lehman Brothers)		
John D. and Catherine T. MacArthur Foundation	\$15 million	Foundation
Joe Marsh	\$3 million	Ind.
Merchant Capital, Inc. (CSFB)	\$10 million	Fin. Inst.
ML IBK Positions, Inc.	\$5 million	Fin. Inst.
ML/LJM2 Co-Investment, L.P.	\$16.145 million	
Louis Chiavacci	\$1.0 million	
	\$22.145 million	
Mousseteek Free	\$10 million	Ind.
Rho Mgrut. Viking Trust Gordon and Margaret Hargraves	\$15 million \$0.5 million \$15 million	Ind.
Alpine Investment Partners	\$30.5 million	Adv. Comm.
<u>Ulysses Mgmt.</u> Nash Family Partnership, L.P. Jack Nash Josh Nash Leon Levy	\$2.5 million \$3 million \$2.5 million \$4 million \$12 million	Ind.
Papyrus I Funding Trust (BofA)	\$45 million	Pension Fund
Weyerhaeuser Company Master Retirement Trust	\$ 5 million \$50 million	Adv. Comm.
Primerica Life Insurance Company Travelers Indemnity Company Travelers Insurance Company Travelers Life and Amunity Company	\$0.2745 million \$3.1765 million \$1.3555 million \$0.1935 million \$5.0 million	Fin. Inst.
George Rohr	\$3 million	Ind.
SFG-U Inc. (GECC)	\$5 million	Fin. Inst.
State of Arkansas Teacher Retirement System	\$30 million	Pension Fund
Total	\$386.645 million	

Advisory Committee - % of Total Commitments

44.4%

LPgroups.doc

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

Total Number of LPs	51	
Total Number of LP Groups*	33	
Investor Categories Financial Institutions Pension Funds Individuals Insurance Companies Funds Foundation	Amount of Commiment(\$MM) \$143.045 85.1 73.5 40.0 30.0 15.0 \$386.645	No.% of Commitments 12/ 37.0% 3/ 22.0% 10/ 19.0% 1/ 10.3% 6/ 7.8 % 1/ 3.9 % 33/100.0%

^{*} LP Groups are based on related entities or individual investments under the same management company.

LPgroups.doc

CONFIDENTIAL TREATMENT REQUESTED By Dechert on behalf of its client

		Agreement) of	Funded	Contibution								
No.	Name of Limited Partners	Limited Partner	Capital	Commitment								
	1 Chemical Investments, Inc.	10,000,000.00	1,698,081.99	8,301,918.01								
	2 Conese Family Investments, LP	1,500,000.00	254,708.18	1,245,291.82								
	3 Eugene P. Conese, Sr	1,500,000.00	254,708.18	1,245,291.82								
	4 CIBC Capital Corporation	15,000,000.00	2,547,122.96	12,452,877.04								
	5 Citicorp Investments	10,000,000.00	1,698,081.99	8,301,918.01								
	6 SFG-U Inc. (GECC)	5,000,000.00	849,040.98	4,150,959.02								
	7 Merchant Capital, Inc.	10,000,000.00	1,698,081.99	8,301,918.01								
	8 BT Investment Partners, Inc.	10,000,000.00	1,698,081.99	8,301,918.01								
	9 DLJ Fund Investment Partners III, L.P.	5,000,000.00	849,040.98	4,150,959.02								
	10 J.P. Morgan Partnership Investment Corporation	12,000,000.00	2,037,698.39	9,962,301.61								
	11 Sixty Wall Street Fund, L.P.	3,000,000.00	509,424.61	2,490,575.39								
	12 LB I Group Inc.	10,000,000.00	1,698,081.99	8,301,918.01								
	13 ML IBK Positions, Inc. ~	5,000,000.00	849,040.98	4,150,959.02								
	14 Mousseteck Free	10,000,000.00	1,698,081,99	8,301,918.01								
	15 Rho Fund Investors II LLC	15,000,000.00	2,547,059.28	12,452,940.72								
	16 AON Pension Plan 🚓	5,000,000.00	849,019.75	4,150,980.25								
	17 Leon Levy	4,000,000.00	679,211.84	3,320,788.16								
	18 George Rohr	3,000,000.00	509,411.88	2,490,588.12								
	19 Joshua Nash	2,500,000.00	424,509.89	2,075,490.11								
	20 Jack Nash	3;000,000.00	509,411.88	2,490,588.12								
	21 Nash Family Partnership, L.P.	2,500,000.00	424,509.89	2,075,490.11								
	22 Acquisition Fund Four, L.P.	5,000,000.00	849,019.75	4,150,980.25								
	23 David Greenberg	100,000.00	16,980.39	83,019.61								
	24 Fort Washington Private Equity Investors II; L.P.	10,000,000.00	1,698,039.54	8,301,960.46								
	25 C&I Partners	2,000,000.00	339,607.90	1,660,392.10								
	26 Alpine Investment Partners	15,000,000.00	2,547,059,28	12,452,940.72								
	27 Thomas Elden Investment Trust	500,000.00	84,901.98	415,098.02								
	28 Lakeview Direct Investments, LP	1,500,000.00	254,705.92	1,245,294.08								
	29 Gordon and Margaret Hargraves	500,000.00	84,901.98	415,098.02								
	30 CRM 1999 Enterprise Fund, LLC	3,000,000.00	509,411.88	2,490,588.12								
	31 Weyerhaeuser Co.	5,000,000.00	849,014.10	4,150,985.90								
	32 American Home Assurance Company	22,783,000.00	3,868,617.69	18,914,382.31								
	2a AIG Private Equity Portfolio, L.P.	7,217,000.00	1,225,466,96	5,991,533.04								
	33 Travelers Insurance Company	1,355,500.00	230,163.83	1,125,336.17								
	34 Primerica Life Insurance	274,500.00	46,610.08	227,889.92								
	35 The Travelers Indemnity Company	3,176,500.00	539,369.58	2,637,130.42								
	36 Arkansas Teacher Retirement System	30,000,000.00	5,093,998.83	24,906,001.17								
	37 Kleinwort Benson Holdings, Inc.	5,000,000.00	848,999.79	4,151,000.21								
	38 Louis Chiavacci	1,000,000.00	169,799.97	830,200.03								
	39 Joe Marsh	3,000,000.00	509,399.90	2,490,600.10								
	40 Travelers Life and Annuity Company	193,500.00	32,856.29	160,643.71								
	41 Robert Basham	3,000,000.00	509,399.90	2,490,600.10								
Q	42 Institute for Advanced Studies	5,000,000.00	848,999.79	4,151,000.21								
# #=	43 Freidenrich Family Partnership	4,000,000.00	679,199.86	3,320,800.14								
Sign	44 Freidendich Twenty-Fifty, Ltd. 45 First Union Investors	2,000,000.00	339,599.92	1,660,400.08								
≌ 5		25,000,000.00	4,244,999.05	20,755,000.95								
23 sz	46 MacArthur Foundation	15,000,000.00	2,546,999.41	12,453,000.59								
æ <u>=</u>	47 Papyrus I Funding Trust 48 ML/LJM2 Co-Investment, L.P.	-45,000,000.00	7,640,998.34	37,359,001.66								
5.0		16,645,000.00	2,826,320.24	13,818,679.76								
宣言	49 Sun America	10,000,000.00	1,697,999.62	8,302,000.38								
2 €	50 Ironwood Investors LLC 51 Ethervest LLC	900,000.00	152,819.96	747,180.04								
.×. ĕ	31 EURIVESTILL	1,000,000.00	169,799.97	830,200.03								
CONFIDENTIAL TREATMENT REQUESTED By Dechart on behalf of its client	Unfunded Partners' Capital	•		321,406,526.73								
₹ F	S Envelod Coming means with recover to each I instead Beauty as you have the Coming Come 20 to 15 cm.											
Ęĕ	I imited Partner less the consense are	Funded Capital means, with respect to each Limited Partner on any date, the Capital Contribution of such Limited Partner less the aggregate amount of cash distributed to such Limited Partner by the Borrower on										
E 0	remort state, we are ablicate autorit of city (usurbuted to such Limited	ranner by the Boom	weron								
E G	or prior to such date which may be recalled by the l Agreement.	sorrower pursuant to Sect	kon.∌.1(c)(tili) of the	ramership								
(0.0 B	Unfunded Partners Capital = \$ 321,406,526,73		mittee on Investi	gations DI								

Permanent Subcommittee on Investigations EXHIBIT #251

AF100091 "Foia compidental treatment recuested BY andrew fastow"

Annual Partnership Meeting October 26, 2000

Permanent Subcommittee on Investigation EXHIBIT #252

LJM Investments

Introduction: Meeting Agenda

Introduction

LJM Rationale

LJM Strategy

Activity Summary

Valuation

Sample Investments

Other Issues

Summary

Guest Speakers: Jeff Skilling, Enron

Gene Lockhart, The New Power Company Bill Jacobs, The New Power Company

Will Byers, The New Power Company

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"FOIA CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASTOW"

XVII.

AF100093 Introduction Confidential

LJM Investments

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4.) Guests	Enron	- Jeff Skilling	TNPC	- Gene Lockhart	- Bill Jacobs	- Will Byers									
3.) LJM2 Limited Partners	Chase Capital	World Air Lease	GE Capital	J.P. Morgan Capital	Merrill Lynch	C&I Partners	Dresdner	AON	Rho Management	CSFB	Ulysses Partners	Fort Wash. Private Equity	Morgan Stanley	First Union Investors	
) LJ	1	. 1	. !	1	ı	ı	1		1	1	1	1	i	l	
1.) LJM Investments 3.)	- Andrew Fastow	- Michael Kopper	- Kathy Lynn	 Michael Hinds 	- Anne Yaeger	- Joyce Tang	- Chris Lochr	- Ace Roman	2.) LJM Consultants	Kirkland & Ellis	- Michael Edsall	Martha Stuart	Price Waterhouse Coopers	- Ian Schachter	

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LJM Rationale

LJM Investments

LJM Rátionale

Fund created and managed by the CFO of Enron – Andrew S. Fastow
Focused on acquiring energy and communications assets primarily owned by Enron

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14.

LJM Investments

LIM Rationale: Why does Enron need private equity?

- · Energy and communications assets typically do not generate earnings or cash flow within the first 1-3 years
 - Investments are dilutive to Euron's current EPS
- Investments are dilutive to credit rating ratios
- Solutions
- Enron must deconsolidate assets
- Enron must create structures which accelerate projected earnings and cash flows

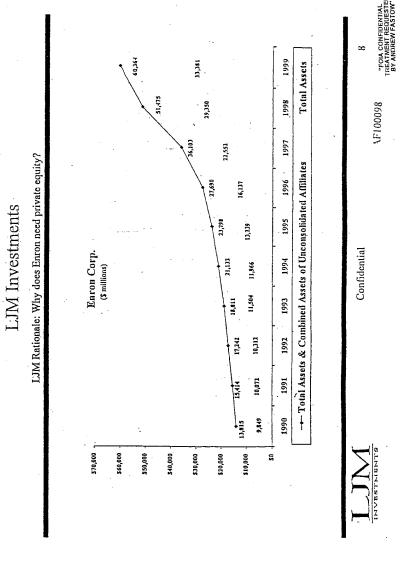
> This leads to opportunities for LJM

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LJM Investments

LJM Rationale: Why does Enron need private equity?

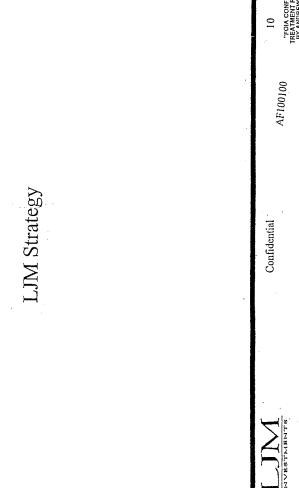
Additional applications of private equity have been developed

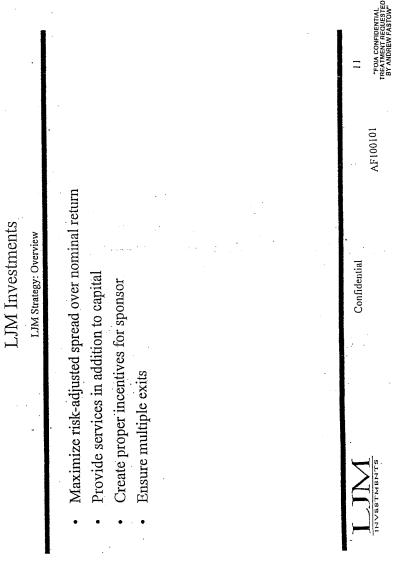
Risk managementNature of earnings

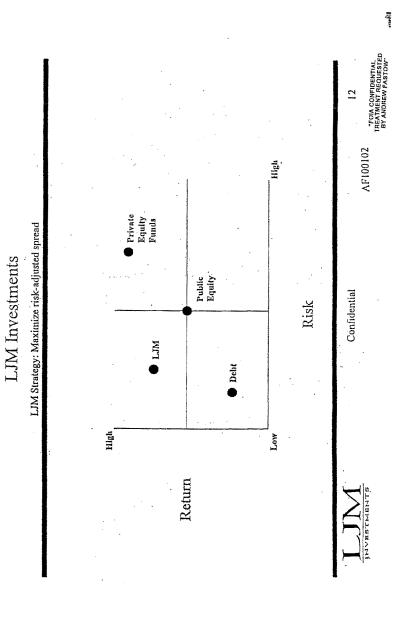
- Earnings generation

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LJM investments

LJM Strategy: Provide services in addition to capital

• LJM offers a different product than traditional equity providers

Certainty of execution

Structured equity capability
Confidentiality
Knowledge of company's objectives and reliability

Ability to play GP role

"FOIA CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASTOW"

AF100103

Confidential

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LJM Investments

LJM Strategy: Create proper incentives for sponsor

• Sponsor typically retains an ongoing economic interest in investment

• Sponsor typically benefits by assisting LJM in liquidation of investment

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IDENTIAL REQUESTED FASTOW"

AF100105 Confidential '

LJM Investments LJM Strategy: Multiple exit routes

Self—liquidating
"Effective" put
Sale
Securitization

170491

Activity Summary

Confidential AF100106 16

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LJM

Activity Summary: Closing

• First close on December 22, 1999

• Final close on April 5, 2000

Total capital commitments of \$394 million

- 42% financial institutions and insurance companies (Rated A- or higher)

- 36% individual investors and private equity funds

22% pension funds

AF100107

Confidential

- T

Activity Summary: Overview

23 investments have been made

\$511 million committed to investments / \$438 million invested

6 investments liquidated on schedule at target returns (\$108 million)

5 investments partially realized (\$123 million)

\$245 million of Partners' capital has been funded

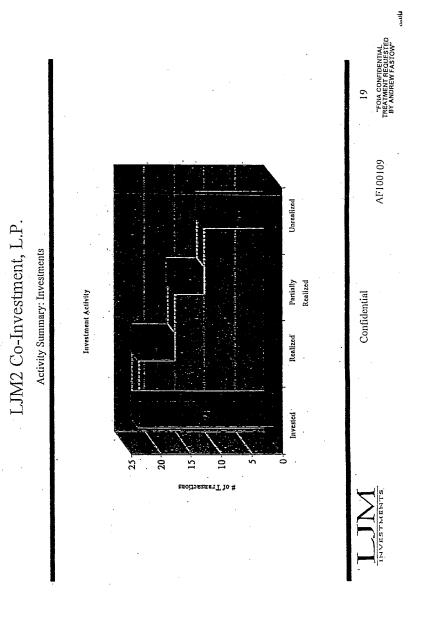
\$135 million of debt used for investments

• Projected Net Limited Partner IRR* -69% Cash multiple -2.3X

*See Valuation: Key model assumptions slide

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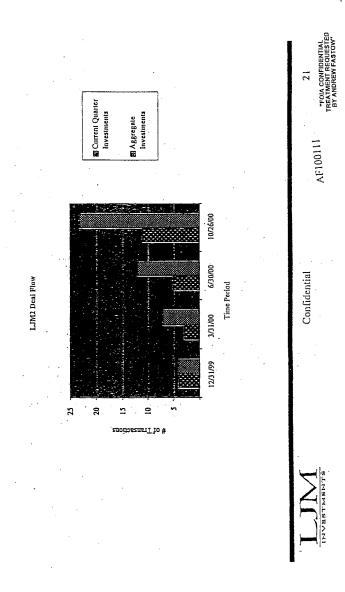


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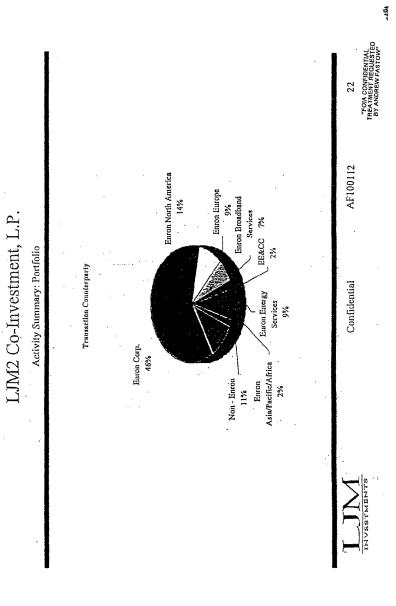
•	Introctments
	Cummary. I
	Activity

			7	5		r rejected	
·	Date	Amount	Cuttask,	Received to D-to	Current	Cath	Projected
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Cuttandinated Butta							
STORTHUMBER LYCH							
. ENA CLO Ireat - Deld	. 77-Dec-99 .	19,600,000	0		100%	1.83	27.
Total Debt		000'009'61					
Equity							
Dackbone	30-Jun-00	29,990,763	.0		100%	1	
ENA CLO Trust 1 - Boulty	22-Dec-99 :	12,900,000	ç		-100%	9	300
First Halan Cl O	29.500.00	2 5 780 000	. <		3	.,,	376
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Marganx	17-Jul-08	10,000,000	۵.		×00.	=	163
. Other	12-Jul-00	26,000,000	0		¥001-	5	10%
Osprey 2	11-Sep-00	6,500,000	0		7001	3.10	75%
Revier 1-A	19-Sep-00	000 000 9	-		2,001,	91	17 4%
Renter II.A	11.0-1.0	1 100 000			1004	5 3	13 444
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Ketco	D-149-00	673,200	9		.00%	132	23%
TANG	12-Jul-00	31,000,000	0		%00 1 -	61.	133%
Zenith .	I-Aug-00	21,000,000	0		¥001-	2	2135
Total Equity		207,363,963					
Total Unrealized Investments		226,963,963	5				
CH 7RA Turbles	12.Mex.00	\$ 7.9 3/7 \$		114 344	7001	. 5	700
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Daylife.	o-dayar	200,000,00		ort oct	2002	7	2000
		200700	-	000	200	701	10%
Total Partially Realized Investments		110,226,975		12,641,775			
Restized lavestments			٠				
Bergeon	29-Jun-00	7,525,000		1,235,000	30%	1.09	
Bob West Treasure	29-Dec-99	2,953,125	Ž	3,246,649	21%	9.	
Cayote Springs	7-Jul-00	•	1 /4	3,537,000			,
Plyto	29-Dec-99	26,313,610	1/u	26.794.115	2	101	
Poland	21-Dec-99	30,000,000	1/4	32 641 500	41%	60 5	
Ynternita	28-Feb-00	11 750 000	2	11 630 000	25.00	8	
Parked Sear.		100 541 115		245 255 101		-	
Total Investor		117,117,001		£07, F27, 201			
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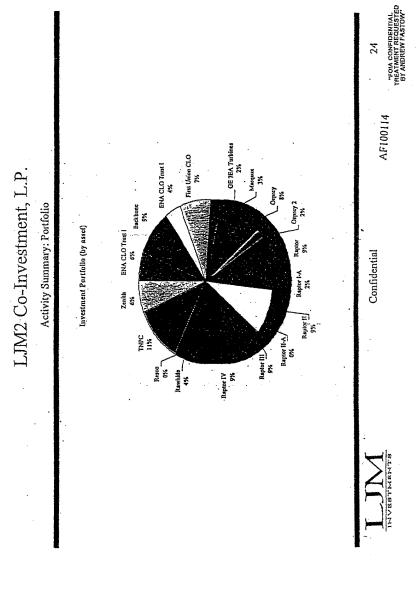


Activity Summary: Investments

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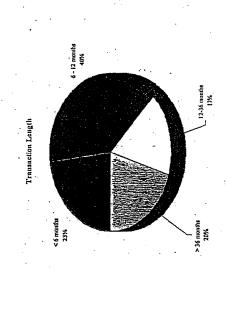


23 AF100113 investing with Enron in Projects 7% Co-Invest in Encon Businesses 974 LJM2:Co-Investment, L.P. Short term / Warehousing Facilities 25% Activity Summary: Portfolio Investment Portfolla (by Type) Confidential Structured Finance Vehicles 48% investments outside of Enron 11%



LJM2 Co-Investment, L.P.

Activity Summary: Cash flows



63% of LJM's investments are projected to pay out in less than one year



25
"FOIA CONFIDENTIAL
TREATMENT REQUESTED
BY ANDREW FASTOW"

LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

00/16/6 00/06/6 00/16/11	(1000,000,000)	- (000,000,01)	(12,900,000)					
00/05/0 00/05/6 00/15/11		.•	•	•		•		
9/30/00	•	(29,990,763)	•	:	(3,006,422)			•
12/31/00	•	· •	•	,	(4.400.475)	(10.000.000)	(26,000,000)	•
10/11/01	•		1.296.603	(25,200,000)	8 176 975	410.000		(6.500.000)
	2.861.466		1 211 307	512 832		*	1 647.500	414.375
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/11/01/0	1 392 580		1 260 668	1 381 846			1 657 500	878 750
10/12/61	and the section of	•		1 640 130		600 000		
1/11/02	1.392.580	•	2,599,150	1.591.359		*	1.657.500	828.750
20/02/9	•	•	•	1,611,779		1.066,667		•
20/02/02	1,392,580	,•	2,254,686	1,633,661		!	1,657,500	828,750
12/31/02	•	•	•	1,632,259		1,066,667	•	•
3/31/03	1,392,580	٠	2,431,131	1,586,804	•		33,099,273	16,398,372
£0/0£/9	•	•	•	1,607,756	,	166,667	•	•
8/30/03	1,392,580		2,296,841	1,628,742	ı	•	•	.*
E0/15/C1	•			1,627,715	•	766,667	•	
3/31/04	1,392,580		2,420,769	1,604,704		. •		•
10/06/9			r	1,604,406		166,667	•	
₹0/06/6	1,392,580	•	2,011,623	1,626,117		•		1
12/31/04			•	1,625,718	•	. 766,667	٠	•
3/31/05	1,392,580	,	1,837,535	1,550,860	,		٠	
\$0/06/9	•			1,561,573	.•.	766,667		
80/00/08	1,392,580	•	1,345,985	1,586,127	•		,	
12/31/05	20,767,478	•	19,026,735	24,659,058	•	10,782,456		•
Total Profits	16,362,164	5,398,337	27,115,033	28,449,435	920,078	8,399,122	13,729,273	12,798,997
IRI	14%	18%	32%	24%	40%	16%	21%	. 72%
Chalt X*	1.85	1.18	3.10	2,13	1:09	1,84	1.53	2.97
*Equals (prof	fit-invested cap	*Equals (profit+invested capital)/invested capital	vital					
. Bold cash flo	Bold cash flows have been realized	realized .						
			_	Confidential	_			
LVL							AF100116	

AF100117

LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

1,283,717 (673,200) 1,2950,000 (29,950,000 (29,950,000 (410,803) 1,19,977 (673,200 (410,800) 1,19,977 (41,800,000 (41,100,000 (41		Raptor	Raptor I.A Raptor II		Raptor II-A Raptor III	- 1	Reptor IV	Rawhide	Resco 7	TNPC	Zenith
(12,450,000) (12,450,000) (12,950,000) (12,950,000) (12,950,000) (13,9	12/31/99	•	•	,	•	٠.	•			1	
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40,315,667 (5,000,000) (29,950,000) (29,950,000) (41,927 (15,000,000) (42,1875) (15,000,000) (42,1875) (15,000,000) (42,1875) (15,000,000) (42,1875) (15,000,000) (42,1875) (15,000,000) (42,1875) (15,000,000) (42,1875	00/06/9		٠.		*	•	•	410,803		•	•
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29,500,000 421,873 889,098 71,649,000 421,873 849,098 71,649,000 421,873 849,098 71,649,000 421,873 42	12/31/00			41,000,000	(1,100,000)	39,500,000		421,875		•	1,700,000
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29,500,000 8,542,969 1,550,621 30,000,000 1,550,621 30,000,000 30,000,000 30,000,000 40,566,657 2,542,969 41,050,000 450,666,657 2,542,969 41,050,000 450,666,657 2,542,969 41,050,000 450,666,657 2,542,969 41,050,000 41,0	10/05/9	•	-1	•	•	•	. • :	421,875	889,098	71,649,000	•
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29,300,000	6/30/02	*	•	•	1	1	1	421,875	•-	t	•
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193% 12% 278% 12% 2580% 125% 18% 25% 133% 21%	Total Profits	1	2,542,969	41,050,000	450,621	39,550,000	41,050,000	6,671,355	215,898	33,649,000	17,814,286
2.37 1.52 1.39 1.1. (profit-flavested capital)	JBR .	193%	12%	278%	12%	2503%	125%	. 18%	25%	133%	21%
(profit-throated capital) finvested capital th stows have been resilted Confidential	Cash X	2,37	1.42	2.37	1.41	2.32	2.37	1.52	1.32	1.89	1.85
	*Equals (pro	fitthuvested capi aws have been r	tal)/invested c ealized	apital						- :	
		2			-	Confidentia	7	,			27

LJM2 Co-Investment, L.P.

Activity Summary: Cash flows

1231199 1231199 1231190 1231000 1231000 133101 133101 133101 133103 133103	(7,525,000) 3,246,649 8,205,000	(2,953,125)					***********
67900 93900 93900 93101 63901 63901 13161 13162 93903	(7,525,000) 8,205,000			26,794,115	31,891,502	100,000	45,228,700
9,3000 12,9100 13,9101 13,9101 12,9101 13,9102 13,902	8,205,000	2775 610				•	THE PIE YY
93000 93100 93101 93001 93001 123101 123101	8,205,000	2,440,942		•	•	• .	(557,615,00)
1231/00 331/01 630/01 1231/01 630/02 630/02	8,205,000		3,557,000	•	,	•	(128'926'881)
33101 63001 10182 33102 63000	. .	.*	•		٠	•	68,100,453
190068 191081 181181 191181		:,	•	,		٠	48,141,354
9/30/01 12/31/01 3/31/02 6/30/02			1	1	·•		110,285,064
1,231/03 3/31/02 6/30/02 9/30/03			.*	,	•		6,943,219
3/30/02 6/30/02 8/30/03	` ,	,	1				6,062,003
6/30/02			•			•	8 491 714
9/30/02							022 001-1
\$430/03		•		•			0,000,00
	ŧ	•		•	•		8,189,052
12/31/02	•		•	*	•	.•	6,520,801
3/31/03	. *	ì	12	•			69,835,627
6/36/03	1		•	•	•		61,874,422
6/30/03	•	,	•	,	•		75,411,753
12/11/03	•	t	,				5,794,381
10/11/1	. !		•	٠	•		5,418,053
F0/06/9	* #	,		•	٠		29,285,358
FWOE	,		•	•	٠		1,030,320
Advant 12							אור נטנ נ
12/31/04		•	•				200000
3/31/05		•			•		£15,000,00
6/30/03		,	•	1			7,328,240
9/30/05	•		•	1	•	•	4,324,692
12/31/03	•	•	•	•			75,235,727
Total Profits	000'089	293,524	3,557,000	480,505	2,641,502	100,000	344,485,767
1231	29%	21%	Š	%8	41%	ž.	51%
Cash X.	1.09	1,10	INF	. 1:02	1.09	INF	
*Equals (profit-invested capital)/invested capital Noid eash stows have been realized	oital)/invested realized	capital	-				
\geq			Confidentia	tial		AF100118	
NYESTARTA				·.			"FOIA CONFIDENTIAL
							BY AN

LJM2 Co-Investment, L.P.

Activity Summary: LP Capital Calls and Disbursements

Distributions							\$ 97,376,617
Capital Calls	\$ 19,027,446	\$ 92,565,093	\$ 72,835,848	\$ 37,620,037	\$ 21,285,021	\$243,333,445	•
	Drawn Capital by Final Close	June 26 Capital Call	June 29 Capital Call	Sept. 19 Capital Call	Oct. 11 Capital Call	Oct. 26 Drawn Level	Oct. 31 Scheduled Distribution



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29
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Valuation

Valuation: Overview

Current portfolio of investments projected to yield IRR = 51%

Leverage at LIM2 projected to increase yield to IRR = 69%

Projected average life of investments = 2.25 years

Cash multiple projected = 2.3X

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LJM2 Co-Investment, L.P.

Valuation: Projected Profits

		Total Profits (\$) 7.782,529 122,643,775 214,059,463 344,485,767
	*-	Total Value (\$) 108,324,264 240,303,817 441,023,426 789,651,507
us		Remaining Value** (\$) 117,660,042 441,023,426 558,683,468
JM2 Valuatio	(as of 10/22/00)	Realized Proceeds (\$) 108,324,264 122,643,775 230,968,039
Ţ		Invested (\$) 100,541,735 110,226,975 226,963,963
		# Transactions 6 5 5 12 23
		Realized Partially Realized Unrealized Total

*Raptor I, II, III, Rawhide, GE/EE&CC Turbines

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AF100122

Valuation: Key model assumptions

- Key investment assumptions impacting LJM2 projected return:
- Osprey structure assumes a 15% growth in Enron stock to 1/15/03
- The model assumes a full recovery of the capital invested in all Raptor structures based on the overcollateralization displayed in Raptor Daily Position Reports
 - TNPC assumes liquidation 6 months after IPO at \$21 per share
 - Debt level of \$120 million
- Available debt invested (\$50 million) at expected portfolio return for the length of the commitment period

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AF100123

"FOIA CONFIDENTIAL TREATMENT REQUESTE BY ANDREW FASTOW"

AF100124 LIM Projected lavestment Performance Valuation: Return distribution. Overall projected asset IRR of 51% 50-200% Confidential 20-50% 0-15% 130
160
140
140
Equily Invasted 100
(5 millions) 80 8 2 8

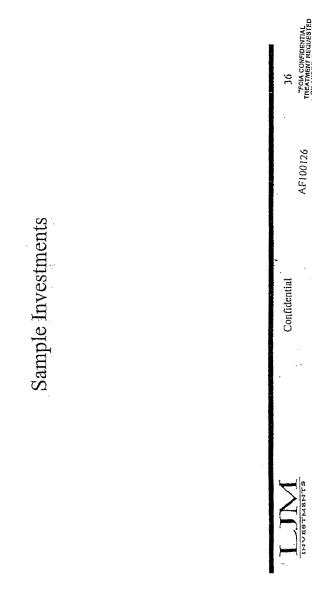
LJM2 Co-Investment, L.P.

Valuation: Leverage facilities

- LJM2 currently has two credit facilities
- \$65 million revolver from Chase
 \$14.1 million from SE Acquisition, L.P. (Enron affiliate)
- The Chase revolver is fully drawn
- All outstanding debt will be repaid by the new \$120 million credit facility expected to close November, 2000
- Assuming the \$120 million credit facility is fully drawn and invested at the current projected IRR, then the projected 51% asset IRR translates into a 69% net IRR to the LPs

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AF100125



Sample Investments: Raptor I

- derivative and LJM equity, that will enter into derivative transactions with Enron related to investments in Enron's merchant investment portfolio Raptor is a structured finance vehicle, capitalized with an Enron stock
- Raptor helps Enron manage the impact of the price volatility of its merchant investment portfolio on its income statement
- Major risk to LJM is that Enron stock price drops below \$48.00 per share (43% decline) six months after closing
- LJM's return is projected to be 84%
- LJM used for speed, flexibility, complexity of transaction, and confidentiality

AF100127

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"FOIA CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASTOW"

Sample Investments: Osprey

- Osprey is a partner in an investment vehicle that purchases merchant assets from Enron; it is capitalized with 50 million shares of Enron stock † assets + equity, including \$26 million from LJM
- This structure created a synthetic multibillion dollar balance sheet for Enron to deconsolidate assets and to generate funds flow
- Major risk to LJM is a decrease in Enron stock price below \$47.00 per share coupled with a deterioration of asset values to zero
 - LIM's return is 12.75% on the certificates with limited upside potential. LJM, anticipates securitizing this asset along with similar portfolio assets in order to enhance Partners' returns
- LJM used for structured finance expertise and speed



Confidential

AF100128

"FOIA CO TREATMEN

"FOIA CONFIDENTIAL TREATMENT REQUESTI BY ANDREW FASTOW

Samplé Investments: Osprey Capitalization

\$ 4.1 billion Enron stock

+ \$2.4 billion cash and Enron merchant assets

\$ 6.5 billion total assets

- \$.2.4 billion debt

\$ 4.1 billion available to cover equity

÷ \$ 220 million of equity

= 19 X coverage

Confidential AF100129 39
TEAL CONFIDENTIAL TREATMENT REQUESTED

LJM

Sample Investments: TNPC

- \$50 million for a 3.9% stake in TNPC, the residential energy services LJM2 (\$38 million), along with co-investors (\$12 million), invested business started by Enron
- Enron desired to deconsolidate this business while TNPC gains critical mass
 - The primary risk to LJM2 is successful execution of the TNPC business plan and equity market response
 - Expected IRR of 133%

AF100130 Confidential

"FOIA CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASTOW"

Sample Investments: TNPC

	19.31 21.00 133% 1.9X	& &	·
	; }	}	
Cumbert Price _ 10/24/00	1031	r,	
Opening trading price - 10/5/00	28.50	<>	
IPO price	21.00	↔	
2nd Round Private Placement (LJM's cost basis per share)	\$ 10.75	.	

Confidential

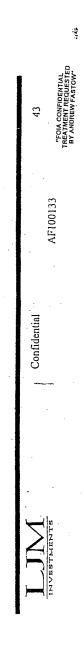
AF100131

4

"FOIA CONFIDENTIAL TREATMENT REQUESTED BY ANDREW FASTOW"

Other Issues

Confidential AF100132 "Fola restrict



Summary

in illini

	Summary		
•			
 As expected 			
- Types of transactions	nsactions		
- Strategic imp	Strategic importance to Enron		
- Velocity (qui	Velocity (quick conversion to cash)		
- Rates of return	ur		
- Use of leverage	ıge		
 Not as expected 			
- Higher level of deal flow	of deal flow		
- Greater abilit	Greater ability to manage risk		
- More "perma	More "permanent" investments		
·.			
LIM	Confidential		. 44
INVESTMENTS		AF100134	"FOIA CONFIDENCE:

LJM2 Co-Investment, L.P.

DEC-11-2000 17:29

MERRILL LYNCH

214 849 5399 P. 02 Lile: LIM3

12/11/00 426 PM

Merrill Lynch

Management Unit:

Group: Project Timing:

APPROPRIATION REQUEST (\$ in thousands)

Investment Banking (IBK) November 2000

Project Name Project Number: Financial Commitment

LJM3 Co-Investment LP 2000-13141 \$5,000

Progress Evaluation Date: Annual After-Tax Benefit
EXECUTIVE SUMMARY

The Energy and the Private Equity Group of Investment Banking are requesting approval to invest \$5.0 million as a limited partner in LJM3 Co-Investment LP ("LJM3", the "Fund" or the "Partnership"), a private equity fund with a target capitalization of \$200 million, being formed by Andrew S. Fastow, Chief Financial Officer of Enron Corp. ("Enron"). In addition to the financial return from investing in the Fund, the Energy Group expects that ML's investment the Fund will enhance its strong relationship with Enron. In December 1999, Merrill Lynch acted as placement agent and invested 55 million in LJM2 resulting in total commitments of \$394 million; Merrill Lynch employees invested over \$16.7 million in LJM2. It is anticipated that a separate offering will be marketed to ML qualified employees in 2001. ML is acting as the placement agent for this fund which is a Delaware Limited Partnership.

Merrill Lynch has had an extremely lucrative relationship with Enron over the past few years. In 2000 our relationship with Enron yielded inve banking fees in excess of \$17, including a private placement fee of approximately \$6 million from our work on this fund.

LJM3 is being organized to make privately negotiated equity and equity-related investments in energy and communications-related businesses and assets. The primary source of investment opportunities will be companies owned or controlled by Enron. These investments will generally be co-in-Enron whereby Enron will manage and operate the business.

The amount of investment by the Partnership in any one transaction will be limited to \$20 million. The Partnership's objective is to generate a net IRR after fees and expenses of the Parmership in excess of 30%. LJM3 provides investors with a unique investment opportunity for several primary reasons:

- LJM3 will have Preferred Access to Proprietary Deal Flow. Enron has extensive and unique deal origination capability that derives from its over 2,000 fully dedicated origination and monitoring professionals located around the world. The deal flow emanating from this unparalleled origination infrastructure has resulted in investments by Euron averaging approximately 57 billion in each of the last two years and an existing merchant investment portfolio of over \$10 billion.
- The Investment Opportunities Sourced by Euron are Attractive. In addition to being abundant, the invest the opportunity to achieve attractive returns. The quality of the investments originated by Euron's deal origination infrastructure is reflected in the financial performance of Enron and several of its investment partnerships. Enron's common stock has generated total returns to shareholders (price appreciation plus reinvestment dividends) of 1,393% since January 1, 1990.
- Investments will be Analyzed, Structured and Operated by Enron. Over the years, Enron has developed a rigorous process of investment analysis, which employs over 130 professionals in disciplines such as: engineering and research, credit, tax, legal, accounting, insurance and risk analysis.
- Proven Track Record of LJM2. The current portfolio of investments is projected to yield an IRR of 51% that increases to 69% when the effects of leverage are included. LJMZ's investments have a projected average of 2.3 yrs with over 63% of the portfolio expected to pay out in less than one year.

The fund is structured with a five-year commitment period and estimated ten-year life. Limited Partners and the General Partner (collectively, the "Partners") will share in the profits of the Fund on the following basis: (1) Partners will receive an 8% cumulative compound annualized rate of return, subject to the Partners first receiving return of 100% of their invested capital used to acquire realized investments plus write downs on unrealized investments and including capital contributions in the form of the Partners' pro rata share of all organizational expenses and partnership expenses (including management fees) allocated to realized investments and write downs on unrealized investments; (2) thereafter, 100% to the GP and others participating in carried interest up to 20%; (3) after which, 80% to the Limited Partners. Annual management fees will be equal to 2.0% of aggregate commitments.

Because of Erron's deal flow, our commitment could be due by 12-15-00. Projected pre-tax and after-tax returns are estimated at 23% and 17%, resp

Ten-yea	r Increment	al Financial	Results Com			NO INVESTA		re estimated at 25% and 17%, respectively.
	Net <u>Revenue</u>	Expense	Pre-Tax Earnings	Net Earnings	ROE	Net Cash Flow	Headcount Cum. Incr.	Current Year Cost Budget
2001	(100)	0	(100)	(64)	(4.5%)	(913)	0	Yes X No Partial
2002	(100)	0	(100)	(64)	(4.5%)	(913)	0	P&L Impact
2003	(100)	0	(100)	(64)	(2.7%)	(913)	ì	Excess Over Budget 50
2004	(100)	0	(100)	(64)	(1.9%)	(913)	٥	Will be absorbed by other
2005	(100)	D	(100)	(64)	(1.5%)	(913)	Ō	Identified reductions
2006-10	9,100	0	9,100	5,830	N/A	10,076	g	Will be excess annual cost
Total	\$8,610	N/A	\$8,610	55,510	N/A	\$5,510		
					Oth	er Financial Data		
	cial Commit	ment	Proposal		Budget	After-Tax	IRR 07.2%	17.1%
Capit			\$5,000		\$5,000	After-Tax	After-Tax NPV Benefit @ 7.2% \$2,226	
Exper			0		0		NPV Benefit @	14.4% \$442
TOTA	ase/Contrac	t	<u> </u>		0	Effective T		36%
1017	<u> </u>		\$5,000		\$5,000	Project Inc	remental Equit	y\$5,000

Permanent Subcommittee on Investigation EXHIBIT #253

DEC-11-2000 17:30 MERRILL LYNCH

214 849 5399 F.03

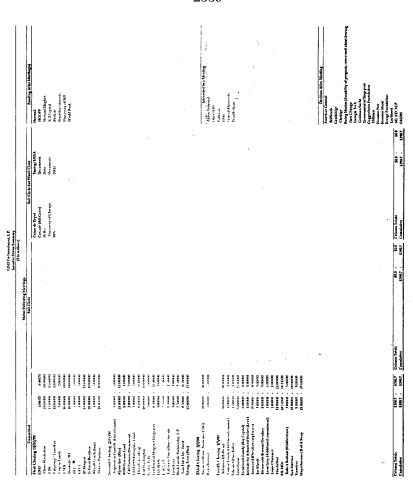
12/11/00 4:26 FM

Merrill Lynch

	APPROPRIATI	ON REQUEST APP	ROVALS
Management Unit	Investment Banking	Project Name: LII	M3 Co-Investment LP
GROUP:	CICG	Financial Commitment	: 5,000
SPONSOR:	1 1101	CO-SPONSOR:	1.1.
Originator:	Ben Syllivan	Originator:	Robert Furst
Originator:	David Webb	Originator:	Rick Gordon
		_	
IBK Unit Head:	Gary M. Carlin	Private Eq. Inv. Group:	Alfred F. Hurley
Sector Finance Director:	David B. Gendron	Group EVF:	Thomas W. Davis
Other Reviews		Corporate Approvals	
New Product Review:	Group/Date	Chief Financial Officer:	Thomas H. Patrick
Peer Process Review:	Date	Executive Committee:	
		Audit and Finance Committee:	
To be completed after app Appropriation No. MRS/Cost Center No.	woval.	Other:	
Project Analysis No.	, "1" ·	Date Approved:	

TOTAL P.03





MS 18602

Schneider, Don (GMI-HR)

From:

Schneider, Don (CICG-HR)
Tuesday, November 21, 2000 5:54 PM Sent:

To: Albert, Kevin (IBK-NY) Bolz, Cathy (HR - CICG) Cc:

Subject: RE: ML investment in LJM III

Thanks for the heads up. I am sure that people will be interested in this.

Given the closing date of December 15 mentioned below, do we need to rush this out or is CICG making a commitment that we will pass along to our employees to the extent they are interested?

Regards, Don Donald J. Schneider
FVP, CICG Human Resources
Merrill Lynch & Co.
4 World Financial Center – 8th Floor 4 World Financial Center = 65 Floor New York, NY 10080 Tel: [212] 449-7005 = Fax: [212] 449-7011 don_schneider@nl.com

---Original Message----From: Albert, Kevin (IBK-NY)

Tuesday, November 21, 2000 12:3" PM

Sent:

To: Schneider, Don (CICG-HR)
Subject: FW: ML investment in LJM III

Don-I wanted to give you an advance "heads up" a new LJM program is in the works and I think there will probably be substantial interest in re-doing the employee vehicle early next year. KA

Al, I just spoke with Kevin Albert and he indicated that he conferred with David Webb and due to their limited budget they would like to take S5 million of the LULI III offering. Would you like me to speak with Don Schneider about the possibility of an employee offering, as in the case of LUM III? Plis let me know so that we can keep the ball rolling on this time sensitive investment.

Permanent Subcommittee on Investigations EXHIBIT #254

2341

as previously mentioned - we need to know if we should set up a committee meeting, the timing is going to be very tight.

LJM III is a private equity fund managed by the CFO of Enron Corp., Andrew Fastow, that coinvest with Enron Corp in Enron originated deal. ML was the placement agent for LJM II and is the placement agent for LJM III. LJM II is a S392mm fund the was closed last year. Returns to date have been 70% irr. LJM funds differentiates themselves from other pivot equity funds for its mandate is to invest in highly structured transactions versus an investment in operating companies. This strategy provides very competitive returns while drastically reducing risk. Therefore, I am asking for a \$10mm investment form IBK and seeking \$35mm investment from other pockets of ML managed private equity. ML IBK invested \$5mm in LJM II and ML employees invested \$15mm. Enron Corp has generated \$23mm in feets for 1999 and 12mm in feets for 2000. Enron Corp is considered a core ML Energy Group account. The closing will occur on of before Dec 15, 2000.

Robert S. Furst Livestment Banking-Dallas 214-849-5350 phone 214-849-5399 tax Robert Fursi Milcom

```
From:
                                                alan biloski (alanbiloski@msn.com)
                                               alan bioski (alanohoski eman.com)
Friday, December 21, 2001 11:47 AM
KCantlon@exchange.mi.com
Re: ML/LJM2 Co-Investment, L.P. Capital Call ($140K Commit)
Sent:
To:
Subject:
 YOU MUST BE JOKING MAKING A CALL INTO THIS SHIT FUND --- IT WON'T BE
 LONG
BEFORE THE SEC CLOSES DOWN THIS SHOP FOR FRAUD
>From: "Cantlon, Kieran J (GMI Private Equity Finance)"
><KCantloneexchange.ml.com>
>To: "Dolan, Gary (OSC)" <GaryD@exchange.ml.com>
>Co: "Cariddi, Curt (GMI-Fvt Eqty)" <CCariddi@exchange.ml.com>
.Tully,
>Robert F (CIGG Private Equity Finance)" <RTully@exchange.ml.com>,
"Zrike,
>Katherine (OSC)" <KZrike@exchange.ml.com>, "Hurley Jr., Alfred F
(Private
*Ratherine (OGC) **Affixee*Change.ml.com>, *Rurley Jr., Alfred (Frivate 
>Equity) * <ARurley@exchange.ml.com>, *Dobosh, Larry (OGC) *
<-Clobosh@exchange.ml.com>, *Schneider, Don (CICG-HR) *
<-Con Schneider@ml.com>
>Chon Schneider@ml.com>
>Subject. ML/LIME Co-Investment, L.P. Capital Call ($140K Commit)
>Date: Fri, 21 Dec 2001 11:33:35 -0500
 >This is a notice by the General Partner of ML/LJM2 Co-Investment, L.P.
 (the
>'Feeder Fund') of a Capital Call. The purpose of the Capital Call is
 to

-fund a capital call made by LJM2 Co-Investment,

>L.P. (*LJM2*), the proceeds of which are to be used to pay down LJM2's

-credit facility, which has been called by the banks under the terms of
 >loan agreement.
 >> The amount of your Capital Call is $9,100 representing 6.5% of your >$140,000 Commitment. After this Capital Call, your total investment in
>>140,000 Commitment. After this capital carr, your total investment in the 
>Feeder Fund, net of capital and profits previously 
>returned to you, will be $25,913 representing 18.5% of your Commitment.
>The General Partner of LJM2 has stated that it does not currently 
>anticipate making further capital calls during the remaining 
>life of the partnership (though it retains the right to make further 
calls 
>if the need arises).
>On December 28, we will deduct the amount of the Capital Call from the CMA
>account that you identified for such purpose in your Subscription >Agreement. Please be sure to have sufficient funds >available in the account.
 >Cuestions have been raised as to whether you are required to pay this
 >capital call.
>The Feeder Fund, as a limited partner of LJM2, does not have any right 
>under the LJM2 partnership agreement to decline to pay LJM2's capital call.
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Permanent Subcommittee on Investigations EXHIBIT #255

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> Similarly, as a limited partner of the Feeder Fund,
>you do not have any right under the Feeder Fund partnership agreement
to
>decline to pay this capital call.
> Your failure to meet this capital call would be a breach of your
> contractual obligation and will result in adverse consequences to you.
> The General Partner of the Feeder Fund will continue to monitor
> developments concerning LJM2. If, prior to the time we remit the
Feeder
> Fund's capital commitment to LJM2, circumstances arise that
> cause us to determine to withhold our capital commitment, we will
advise
> you promptly.
> << attach3 >>
```

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Interoffice Memorandum

To:

John Swadba

At:

Schuvler Tilney From Rob lones

Lisa Bills

Rosser C. Newton

Tessa Giddens



Date: December 10, 1998

Subject: Enron Corp. Loan Commitment

Background/Request

Merrill Lynch has been mandated by Enron Corp. ("Enron") to lead a 570 million transaction utilizing a STEERS-like structure with owner trusts as the funding vehicle. This transaction is similar to the successful Trailblazer STEERS transaction we executed on behalf of Enron in early November, and Enron has mandated Merrill Lynch for two similar transactions for year-end 1998 closings (see Exhibit 1).

On Wednesday, Merrill Lynch received a request from Enron that Merrill Lynch provide a \$25 million revolver for 60 days to support Erron's construction commitment with respect to the pipelines imbedded in the financing. Enron has indicated that no construction will be undertaken during the pendancy of the Merrill Lynch commitment and, as a result, such revolver would not be drawn. The revolver would be guaranteed by Enron Corp (the parent company, which is rated BBB+). It is anticipated that the revolver would be refinanced by a non-recourse construction loan to fund Enron's investment obligations in the Powder River pipeline over the next 10 - 12 months. Merrill Lynch would lend the money to a newly created SPE named "PR-Z LLC" which will be 100% owned by Enron Capital and Trade Resources Corp., a significant subsidiary of Enron ("ECT"). If a non-recourse lender is not found, Enron would be required to repay the Merrill Lynch loan/commitment after 60 days. The loan commitment is required by Enron's accountants to insure that the structure receives off-balance sheet

Enron is required to have the loan in place by Monday December 14th in order to execute the pipeline LLC agreement with its partners and to provide sufficient time to negotiate and execute the trust financing in which we are acting as placement agent.

Approval is requested to lend \$25 million to PR-Z LLC with an Enron guarantee for 60 days.

Overview of Enron

Enron is among the Merrill Lynch Energy Group's most significant clients. In the past six months, Merrill Lynch has led two debt transactions, a STEERs transaction, co-managed an equity offering and we are presently advising with respect to a major M&A assignment. Enron has an equity market capitalization of approximately 518 billion and an adjusted market capitalization of approximately 527 billion. The Energy Group is very familiar with Enron's businesses as a result of constant dialogue and transactions.

> ermanent Subcommittee on Investigation EXHIBIT #256

Transaction Structure

Enron is in near closure on two agreements with its pariners for the construction and operation of pipelines in Wyoming, in each of which Enron will own an approximate $1/3^{\rm cd}$ interest.

Enron will set-up an LLC to own its member interest in the pipeline LLC. The interest will be split into an "A" interest (100% voting and .01% economic) and a "6" interest (0% voting and 99.99% economic). The A interest will be held at ECT. ECT will be responsible for capital calls made by the pipeline LLC. ECT will look to the non-recourse construction lender to fund ECT's portion of the pipeline construction.

The B interest will flow through two SPE LLCs wholly-owned by ECT until the owner trust purchases it. The trust will be funded by 97% debt placed by Merrill Lynch and 3% equity placed by Erron. The deal term is 12 months with two six-month interest payments. The interest due amount will be held in an account chosen by the 97% debt provider and accepted by the equity provider.

The principal will be repaid by Enron or a subsidiary in the following manner. Within 30 – 90 days after deal closing. Merrill Lynch, as "notification agent" will provide notice to the parties that the trust must elect its expiry take-out option of either putting the B interest back to the ECT SPE or keeping the B interest without any Enron guaranty. The debt provider will control the decision making process which is expected/anticipated to be the put option. Assuming the put option is elected, the appraiser which the trust fured to appraise the "as built" pipeline prior to closing will reappraise the pipeline 2 – 4 months prior to deal expiry. The value determined at this time will constitute the put price. If the new value equals the old value, the debt and equity are repaid in full, if the new value exceeds the old value, the debt and equity are repaid in full and Enron receives the excess. If the new value is less than the old value, Enron, through a total return swap with the trust, will repay any shortfall to the debt. The equity would incur a loss of its investment.

In summary, Enron is entering into this FAS-125 transaction in order to take its investment in the pipeline LLC off its balance sheet but is guaranteeing the debt provider full repayment on its loan investment at the end of 12 months.

Description of Enron

Enron, an Oregon corporation, is an integrated natural gas and electricity company with headquarters in Houston, Texas. Enron's operations are conducted through its subsidiaries and affiliates which are principally engaged in the exploration for and production of natural gas and crude oil in the United States and internationally; the transportation of natural gas through pipelines to markets throughout the United States, the generation and transmission of electricity to markets in the northwestern United States, the marketing of natural gas, electricity and other commodities and related risk management and finance services worldwide; and the development, construction and operation of power plants, pipelines and other energy related assets in international markets. As of December 31, 1997, Enron employed approximately 15,500 persons

Effective July 1, 1997. Enron merged with Portland General Corporation ("PGC") in a stock-forstock transaction. PGC, through its wholly-owned subsidiary Portland General Electric Company ("PGE"), serves retail electric customers in northwest Oregon as well as wholesale electricity customers throughout the western United States.

In October 1998, Enron acquired Wessex Water, a U.K. based water company, for approximately S2 million.

Unknown

Furst, Robert (ISK-DAL). Friday, May 19, 2000 9:47 AM Fram:

Sent: To: Cc: Sullivan, David (IBK-NY); Dient, Bowen (IBK-DAL) Moornjy, Alexander (IBK-NY)

Subject: RE: Enron Net Works

Are you implying that the most we can raise for this venture is \$2.0 billion? I agree with your logic and lets us prepare a presentation along the two step process to distribute to the team on Monday.

Sent: To:

--Original Message--rom: Sulfivan, David (IBK-NY)
ent: Friday, May 19, 2000 8:14 AM
0: Olehi, Bowen (IBK-DAL)
c: Furst, Robert (IBK-DAL); Moomly, Alexander (IBK-NY)
ubject: RE: Enron Net Works

Cc: Subject:

Some clarification on your two structures:

I don't think a \$3 billion private placement of stock in Net Works is feasible (it would roughly be the equivalent of the IPO of Lucent and MetLife. What we discussed was more of a 2 step process:

Sitep 1: Enron sells an interest in the existing online business to a combination of strategic (Cargill, J. Aron, etc.) and financial investors (Hicks, Muse, KKR, etc.) for S1 billion or so. Capping the return poses some issues as to who the buyers of this security would be as most buyers we sell to are after the upside.

Step 2: Enron contributes this cash to a blind pool vehicle where we go out and raise \$1+ billion to invest in underlying ophysical assests (aluminum, copper plants) as well as develop the trading business). For this product to sell, investors in this fund would need to participate in the value creation of the trading businesses. Finally, if these guys are not worried about the debt on the balance sheet, there is no need for them to sell 50% and have LJM2 act as the general

Rob spoke to Jeff McMahon at Enron and learned the following,

- Enron not worried about debt on the balance sheet, as they can structure around it.
- Enron not worned about death of the Selection and select

Net Works as a participant on the exchange)

- The following are some inputs that he gave us:
 2000 trades / day, \$200 billion in notional volume
 2000 industrial viewers
- will soon be launching auctions of pipeline capacity
 Chemax, a chemical exchange, currently charges \$500/trade

Two structures that we have come up with that make sense:

- i. Private Placement of stock in Net Works
- Enron will contribute all EOnline to Net Works
 Merrill will raise \$3 billion in subsidiary stock in Net Works private placement
 Enron wants the equity to be callable at anytime after the offering at a 35% IRR

- After five years, the investors can sell their equity stake, privately

Permanent Subcommittee on Investigations EXHIBIT #257

N/C 10579

- After five years, the investors can force an IPO of Net Works
- Blind Pool Fund
 Enron contributes EOnline stock to partnership for LP interests
 Blind Pool investors contribute cash for LP interests
 LGM contributes cash for the GP interest
 other "wish list" provisions for the above deal will apply here

Let us know your thoughts, we will be sending out some pages; schematics, etc. soon.

Also, Jack we need to discuss your thoughts on creating a revenue model

Regards

Bowen

Unknown

From: Sent:

Furst, Robert (IBK-DAL)

Subject:

Fiday, Robert (18 AM) Sullivan, David (16K-NY); Sullivan, Benjamin (18K-NY); Tilney, Schuyler (16K-HOU); Weingart, Jack (16K - PA); Diehl, Bowen (16K-DAL); Moomly, Alexander (16K-NY)

Enron Net Works

We are confirmed to meet with Enron in Houston on May 26th at 11:00 amilito review our thoughts about fund raising.

Clarification points:

Clarification points:

Off Balance sheet debt. Not a primary driver because Enron believes they can structure anything to be off balance sheet. Eof- they have no projections but are doing back of the envelope valuations assuming they convert this business to an exchange model. Jack - we need you to give us parameters for valuation and comps to ballpark value. They have materially backed off of the \$57.510 billion valuation but think a valuation of \$3.4 billion premoney is easy to get to by using revenue multiples of 20-40x.

Benefit from trading and Enron risk management- all upside will be the in the fund. For example, when they buy a paper company, Enron will transfer its trading activities to the fund for paper and pulp so all the upside will remain in the fund. They will not do this for gas and power but will do this for new vertical markets.

LJM as Gf of the Fund- McMahon said this is the best alternative for keeping all activities of balance sheet.

We need to address execution risk and time. Speed is critical. We also need to discuss our willingness to provide and bridge to Enron wants to move immediately.

bridge for Erron wants to move immediately.

Jack - [will try to move the meeting for your schedule for you are best equipped to deal with valuation and competitive landscape for Eol

Robert S. Furst Investment Banking-Dallas 214-849-5350 phone 214-849-5399 fax Robert_Furst@ml.4bi

> Permanent Subcommittee on Investigations EXHIBIT #258

Lum, Mary (Doc. Prod.-NY)

```
From:
Sent:
Furst Robert (IBK-DAL) [IMCEAEX_O=ML_OU=NORTHAMERICA_CN=60 CN=RECIPIENTS CN=RFURST@exchange.ml.com]
Thursday, April 12_2001 12:10 AM
Kulck, Addam (CAPMKTS)
RE: enron meetings

do we have a home for the 1% interest in their structured deals. They said this could be structured as true equity risk or bond risk.
Prefered size is 15mm to 150mm. I will talk to the private guys
who are looking for 25%+ recurns.

> ---Original Message----
From: Kulick, Adam (CAPMKTS)
Sent: Wednesday, April 11, 2001 4:16 PM
To: Furst, Robert (TBK-DAL); Diehl, Bowen (TBK-DAL); Tilney,
Schuyler (TBK-HGU)
Cc: Sconzo, Jack (CAPMKTS)
Subject: enron meetings

> met with kathy lynn and michael hinds - both mds at ljm, and anne jaeger who i believe you know. ljm invests in enron deals primarily, but is looking to branch out. they do a bunch of balance sheet
deals similar to your barge deal - in fact they bought the barges from ml - and also invest in the debt-like equity tranches of structured deals for example they own equity in thus's pinnarle
> (osprey-like) deal, held the certificates in yosemite, own osprey certificates etc. they are also interested in looking; at deals in the telecom sector, they may be useful in certain structured
> finance deals.
> also, clint freeland and anne are coming in tomorrow to discuss the credit derivatives market, this is a similar conversation to the initiation of yosemite. enron suffers from a lack of liquidity in the provide general education on the
> market, analyze enron specific issues and suggest solutions to the lack of liquidity in their name, we have a couple of ideas that they may find appealing. Please find attached the executive
> summarry of our book i will send you a copy of the full book when it is ready later today, i would welcome your involvement if you wish to join by phone. pls. let me know.

> Strategic Solutions Group
> Merrill Lymch
> Tel: 212 449 3715
Fax: 212 738 2227.
> acambiani.com
```

Permanent Subcommittee on Investigations EXHIBIT #259

Valenti, Joseph S (IBK-NY)

From: Sent: To: Cc: Subject:

Toone, Kira (IBK-NY)
Wednesday, December 29, 1999 3:38 PM
Jackiewicz, Denise (Treasury, NY)
Valenti, Joseph S (IBK-NY)
New Account Opening

Hi Densie,

I'd like to open a Chase account for a new entity which I account for in my area. Would you be so kind as to forward me the account opening questionnaire? This account will be similar to the other 066 accounts I have opened at Chase under the ML Leasing Equipment Corp umbrelia. Please contact me with any questions at 236-7203.

Thanks, Kira

To Foe		Hour 3:45
From G	LE YOU WI eng Conli	
Phone ()	Returned Call	Please Call
Please See Me	Will Call Again	important
Message	mor plu	James 100
	7.	10 pro
	(N) (M————
	Signed	che

Date 12-25-99 Hour Hour
Toe .
WHILE YOU WERE OUT
From Eduardo Andreade
or Wilman Breed
Phone () 351 - 82 ² +1
Telephoned Returned Call Please Call
Please See Me Will Call Again Important
Rei EnRON Transaction
- La Composition
non Harr
226
251
Signed Duly

Permanent Subcommittee on Investigations EXHIBIT #260a.

Valenti, Joseph S (IBK-NY)

Toone, Kira (IBK-NY) Wednesday, March 08, 2000 11:04 AM Valenti, Joseph S (IBK-NY); Haugh, Gerard (IBK-NY) FW: From: Sent: To: Subject:

FYI

—Original Message— From: Hoffman, Alan S. [SMTP:AHoffman@WBAM.com] Sernt: Wednesday, March 08, 2000 10:34 AM To: Toone, Kira (IBK-NY)' Subject: RE:

All of the documents are currently being assembled for distribution by Enron, but I can try to locate the Agreement. Also, we have converted the entity to the Cayman Islands: upon receipt of the stamped confirmation of this from the Cayman filing company (which is due any day), we intend to file a certificate of withdrawal in Delaware.

-----Original Message----From: Toone, Kira (IBK-NY) [mailto:KToone@exchange.ML.com]
Sent: Wednesday, March 08, 2000 10:07 AM
To: 'ahoffman@wbam.com'
Subject:

I have not yet received copies of the documents for Ebarge, LLC. Can I receive a signed copy of the documents or at least the LLC Agreement? Secondly has this entity been converted to a Cayman Island's LLC yet?

Regards, Kira

Permanent Subcommittee on Investigations EXHIBIT #260b.

Permanent Subcommittee on Investigations NOTE: Below is list of Merrill Lynch employees investing in LJM2

1							
Last Name	First Name	MLAcct #	Acct Type		775	Dollars	- Notes -
FRIEDBERG	BARRY	278-96Y27#A	Α	325	\$	325,000.00	Corporate - Active
					_		
ABDOO		82B-99K37#A	Α	32.5			GMI - Active
		896-30425#A	Α	162.5			GMI - Active
ANDERSON	MICHAEL	857-99P56#A	Α .	65		65,000.00	GMI - Active
BAYLY		100-24050#A	Α	130			GMI - Active
BIRLE		896-46260#A	Α	97.5			GMI - Active
BROWN		896-45387#A	Α	32.5		32,500.00	GMI - Active
CHANDLER	ROBERT	20X-10F41#A	Α .	260		260,000.00	
CICCO	MARTIN	830-96Y03#A	A	65	\$		GMI - Active
CORCORAN JR	FRANCIS	706-99T23#A	U j	97.5			GMI - Active
DALY	EMMETT	82B-99K39#A	Α	48.75	\$	48,750.00	GMI - Active
DAUHAJRE	MUNIR	894-99Q21#A	Α	130	\$		GM1 - Active
DAVIS	THOMAS	100-22412#A	Α	97.5			GMI - Active
DODSON III	SAMUEL	542-99L75#A	Α	195		195,000.00	GMI - Active
DREW	MARISA	546-99X68#A	Α	48.75		48,750.00	
DUNLEAVY	KEVIN	100-22951#A	Α -	48.75			GMI - Active
DUNN	RICHARD	176-99H53#A	Α	325			GMI - Active
FIDDLE	FREDERICK	896-37138#A	A	48.75			GMI - Active
FLAHERTY	JAMES	230-99H31#A	A	32.5			GMI - Active
FURST	ROBERT	42X-10L28#A	Α	130		•	GMI - Active
GEITZ	MICHAEL	100-23733#A	Α .	65			GMI - Active
GODVIN	MARK	542-96Y11#A	Α	65			GMI - Active
GORDON	RICHARD	582-99E21#A	Α	325			GMI - Active
HABERMAN	SCOTT	896-37197#A	A	32.5		32,500.00	
HAMMOND	MICHAEL	82B-99892#A	Α	65			GMI - Active
HARRINGTON	MICHELE	278-99263#A	Α .	32.5			GMI - Active
HARTMAN	ALAN	896-46400#A	A	32.5		32,500.00	
HEHIR	BRIAN	891-99965#A	Α	97.5			GMI - Active
HOFFMAN	PETER	896-99V64#A	Α	97.5			GMI - Active
HORN	KEITH	100-24261#A	Α	65		65,000.00	GMI - Active
JOHNSON	CHRISTOPHER	896-52099#A	A	32.5		32,500.00	GMI - Active
JONES	ROB	589-99744#A	A	65			GMI - Active
KNORR	GERALD	896-37063#A	Α	130		130,000.00	GM1 - Active
LEBEC	ALAIN	278-96Y25#A	A	650			GMI - Active
LUND	DAVID	896-49657#A	Α	65			GMI - Active
MALMSTROM	EDWARD	832-99908#A	A	65	-	65,000.00	GMI - Active
MARION	JOSEPH	850-99X33#A	Α	130			GMI - Active
MATURO	FRANK	861-99464#A	Α .	65			GMI - Active
MCCARTHY	DAVID .	270-96Y02#A	Α	130		- 130,000.00	GMI - Active
MCCREARY	THOMAS	546-99126#A	Α	32.5		32,500.00	GMI - Active
MCMANUS	WILLIAM	827-99R53#A	Α	65			GMI - Active
MIZE	CHRISTOPHER	582-99R94#A	Α	65		65,000.00	GMI - Active
NESI	VICTOR	896-49511#A	Α	32.5		32,500.00	GMI - Active
O'GARA	BRIAN	896-47099#A	Α	162.5		162,500.00	GMI - Active
OVERLANDER	KEITH	877-99053#A	Ą	48.75		48,750.00	GMI - Active
PAVELEC	MICHAEL	29S-99390#A	, A	32.5		32,500.00	
PEPE	PAUL	833-99944#A	Α	97.5			GMI - Active
PRATT	JOHN	626-99H23#A	Α	97.5			GMI - Active
RAGHAVAN	HARISH	100-23480#A	A	65			GMI - Active
RESSA	LEO	879-99251#A	Α	48.75			GMI - Active
REUBENSTONE	RICHARD	896-47521#A	Α	32.5			GMI - Active
RIDDLE	WILLIAM HOWARD	706-99R08#B	Α	390			GMI - Active
ROBINSON	DOUGLAS	83E-99220#A	Α	130	\$	130,000.00	GMI - Active

Permanent Subcommittee on Investigations
EXHIBIT #261

Last Name	First Name	MLAcct #	Acct Type	Units		- unate	- Notes -
SAGGURTI	PURNA	86B-99240#A	A	32.5			GMI - Active
SCHULTE	MARK	850-99639#A	Α	65	Ş	65,000.00	GMI - Active
SEIBERT	GREGG	100-24256#A	A	97.5	\$	97,500.00	GMI - Active
SHAFFER	JOHN	825-99N79#A	U	65	\$		GMI - Active
SIMON	KURT	786-99007#A	Α .	97.5	\$	97,500.00	GMI - Active
SQUIRES	DOUGLAS	879-99305#A	Α	32.5	\$	32,500.00	GMI - Active
STERLING	BRIAN	840-99X00#A	Α	65	\$	65,000.00	GMI - Active
SULLIVAN	BENJAMIN	896-46046#A	Α	97.5	\$	97,500,00	GMI - Active
SYCOFF	TODD	896-45358#A	U	65	s	65,000,00	GMI - Active
TAMMARO	JAMES	819-99C85#A	Α.	97.5	s	97.500.00	GMI - Active
TAYABJI	M	818-99F88#A	Α -	65			GMI - Active
TILNEY	SCHUYLER	574-99668#A	A	487.5			GMI - Active
TROY	THOMAS	894-99M94#A	A	130			GMI - Active
TULLY	DANIEL	861-96Y17#A	À	130			GMI - Active
WOLF	LOUIS	100-23456#A	Â	65			GMI - Active
WONG	RAYMOND	879-99309#A	Â	325			GMI - Active
WRIGHT	THOMAS	874-99625#A	Â	65			GMI - Active
WRIGHT	THOMAS	014-55025#7	^	0.5		05,000.00	CHELL - MOUNT
mii 0010	ALAN	25Z-10K53#A	Α	91		01 000 00	GMI - Inactive
BILOSKI CAMPBELL	DANIEL	896-34769#A	Â	195			GMI - Inactive
		857-99X89#A	Â	32.5			GMI - Inactive
DOYLE	HELEN			32.5			GMI - Inactive
LANE	MARK	2AX-99914#A	A				
MC ANDREWS	MARK	100-23767#A	Α .	32.5			GMI - Inactive
MONTGOMERY	WILLIAM	83V-99008#A	A	48.75			GMI - Inactive
RICHARDS	DANIEL	862-99H04#A	U · ·	65	\$	65,000.00	GMI - Inactive
LURIE	HERB	850-99073#A	A	65	\$	65,000.00	GMI - RIF
LYNETT	THOMAS	816-99B01#A	Α -	130	٠\$	130,000,00	GMI - RIF
MEYER	PETER	770-58331#A	A	162.5	\$	162,500.00	GMI - RIF
MEYER	JAMES	857-99783#A	A	195	\$	195,000.00	GMI - RIF
MURPHY .	CHARLES	891-99Q65#A	Α	487.5	\$	487,500.00	GMI - RIF
SENFT	MICHAEL	896-49155#A	A	48,75	\$	48,750.00	GMI - RIF
VAUGHAN	ROBERT	896-53670#A	Α	32.5	\$		GM: - RIF
ROSENBERG	RONALD	896-47528#A	A	65	s	65 000 00	MLIM - Active
ZIMMERMAN	STEPHEN	110-99842#A	ĉ	162.5			MLIM - Retired
ZIMMIERIMAN	SIEFFICIA	110-33042#A		102.0	*	102,500.00	MCM - IVelle
BAKER	GARY	896-54561#A	Α	65			Research - Ac
GENCO	WILLIAM	546-99996#A	Α .	162.5	\$	162,500.00	Research - Ac
GOLDBERG	KENNETH	86G-99597#A	U	32.5	\$	32,500.00	Research - Ac
HUGHES	MICHAEL	204-99498#A	Α	292,5	\$	292,500.00	Research - Ac
LABOWITZ	JERRY	278-96Y21#A	A	162.5	\$	162,500.00	Research - Ac
MCCANN	ROBERT	231-99806#B	A	130	\$	130,000.00	Research - Ac
ROBERTS	JOHN	85E-99375#A	Ü	32.5			Research - Ac
SCHIEDERMAYER	CLARE	850-99P59#A	Ā	32.5			Research - Ac
ULLMANN	DONALD	2BL-99J35#A	Â	130			Research - Ac
COMMINIA	POMPLE	TOL 03000HM	^	130		,00,000.00	. ,030e.on - Au
CABRERA	EDUARDO	582-99L97#A	Α	65	\$	65,000.00	Research - RI
						10.816.000.00	

December 23, 1999

| Who should sign? APACHI|
Enron Corp.
1400 Smith Street
Houston, TX 77002-7369

Deleted: [Name]i [Title]

Dear Mr. McMahon

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is pleased to act as acclusive advisor to Enron Corp. ("Enron") for the sale of equity in Enron Nigeria Barge Ltd. ("ENB"), representing the rights to certain cash flows generated via the sale of electricity to Lagos State Government under a power purchase agreement (together with the Equity Investment, as defined below, the "Transaction").

As Enron's advisor, Merrill Lynch will (i) form a U.S. special purpose entity (the "SPE"), and (ii) fund the purchase by the SPE of a non-controlling \$28 million equity interest in ENB, .521 million of which the SPE will borrow from Enron or an affiliate, which will be collateralized only by the shares of ENB (the "Equity Investment"). The closing of the Equity Investment will be subject to documentation acceptable to the parties, and the Transaction complying with all applicable laws and regulations.

agreement will be guaranteed by the Federal Republic of Nigeria

Deletted: on a non-recourse basis

Deletted: The SPE will receive a yield
of approximately 15.00% per annum on
57 million of its equity investment. The
SPE or its equity interest is RNB will be
subsequently sold to third parry equity
investions or purchased by Enron or an
affiliate.

1. Fees and Expenses

As compensation for Merrill Lynch assisting in the structuring of the Transaction, as advisor, Enron will pay to Merrill Lynch a non-refundable advisory fee (the "Advisory Fee") equal to \$250,000. Payment of the Advisory Fee will occur upon closing of the Equity

_ - Deleted: n

Enron shall be responsible for all costs and expenses incurred in structuring, placing and closing the Transaction. Enron shall be obligated to pay all costs and expenses of the Transaction regardless of whether the Transaction is actually consummated. Such costs and

Permanent Subcommittee on Investigations
EXHIBIT #262

ECp000055004

December 23, 1999 Page 2 of 5

expenses shall include, but not be limited to, reasonable legal fees and disbursements of counsel to the SPE and Merrill Lynch, as well as the cost of establishing the SPE, its ongoing fees and expenses, filing and recording fees and reasonable out-of-pocket expenses of Merrill Lynch.

2. <u>Indemnification</u>, Contribution and Limit on Liability

Enron with indemnify and hold intriness Merri ELynch and its affinites, and its and their respective directors, officers, emproyees, agents and controlling persons. (Merrill Lynch and cach such persons being an. Indemnified Party Thom and against any and all losses, James damages and fabrities, joint or several, as incurred to which such indemnified Party may become subject under any applicable United States federal or state or officerwise, and referred containing out of may than action contemplated by this Agreement or the engagement of Merrill Lynch prints and the performance by Merrill I yach or the sexuces softening lated by this Agreement of New must be combinable than this relates subject to US. Securities law; provided, however, that Erron will not be liable under clause 2 hereof to the extent that any loss, claim, damage or liability is found in a final judgment by a court to have resulted from Merrill Lynch's bad faith or gross negligence in performing the services described above. Enron will also reimburse any Indemnified Party for all expenses (uncluding coursel fees and expenses) as they are incurred in connection with the investigation of, preparation for or defense of any pending or threatened claim or any action or proceeding a sining therefrom, whether or not such Indemnified Party is a party and whether or not such claim, action or proceeding is initiated or brought by or on behalf of Enron. No Indemnified Party shall have any liability (whether direct or indirect, in contract or tort or otherwise) to Enron or its security holders or creditors related to or arising out of the engagement of Merrill Lynch prusant to, or the performance by Merrill Lynch of the services contemplated by, this Agreement except to the extent that any loss, claim, damage or liability is found in a final judgment by a court to have resulted from Merrill Lynch shalf faith or gross negligence.

If the indemnification provided for in this Agreement is for any reason held unenforceable, Enron will contribute to the losses, claims, damages and liabilities, as incurred, for which such indemnification is held unenforceable in such proportion as is appropriate to reflect the relative benefits to Enron, on the one hand, and Merrill Lynch, on the other hand, of the Transaction (whether or not the Transaction is consummated), provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act of 1933) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For the purposes of this paragraph, the relative benefits to Euron and Merrill Lynch of the Transaction shall be deemed to be in the same proportion that the total value of equity in ENB placed or contemplated to be placed, bears to the Advisory Fee paid or contemplated to be paid; provided, however, that, to the extent permitted by applicable law, in no event shall the Indemnified Parties be required to contribute an aggregate amount in excess of the aggregate Advisory Fee actually paid to Merrill Lynch under this Agreement.

3. Notice. Defense and Settlement

Deleted: (ii)

Deleted; or non-U.S. law

December 23, 1999 Page 3 of 5

An Indemnified Party shall notify Enron in writing promptly after it receives notice of any action or proceeding with respect to which it may seek indemnification hereunder; provided, however, that failure to notify Enron shall not relieve Enron from any liability that it may have to such Indemnified Party except to the extent Enron is materially prejudiced by such failure. Enron will assume the defense of such action or proceeding and will employ counsel satisfactory to the Indemnified Parties and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, an Indemnified Party will be entitled to employ counsel separate from counsel for Enron and from any other party in such action if such Indemnified Party determines that a conflict of interest exists which makes representation by counsel chosen by Enron not advisable or if such Indemnified Party reasonably determines that Euron's assumption of the defense does not adequately represent its interest. In such event, the fees and disbursement of such separate counsel will be paid by Enron.

Enron will not, without Merrill Lynch's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification could be sought under the indemnification provision of this Agreement (whether or not Merrill Lynch or any other Indemnified Party is an actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of each Indemnified Party from all liability arising out of such claim, action or proceeding.

In the event Merrill Lynch or any Indemnified Party is requested or required to appear as a winess in any action brought by or on behalf of or against Enron or any affiliate or any participant in a transaction covered hereby in which Merrill Lynch or such Indemnified Party is not named as a defendant, Enron will reimburse Merrill Lynch for all expenses incurred by it in connection with such Indemnified Party's appearing and preparing to appear as a witness, including, without limitation the fees and disbursements of its legal counsel, and to compensate Merrill Lynch in an amount to be mutually agreed upon.

4. Survival of Certain Provisions

The representations, warranties, indemnities, and agreements of Enron and its officers or representatives shall remain in full force and effect regardless of any investigation made by or on behalf of Enron or Merrill Lynch or any affiliates, and shall survive the consummation of the Transaction.

December 23, 1999 Page 4 of 5

5. <u>Amendments; Survival of Provisions</u>

No waiver, amendment or other modification of this Agreement shall be effective unless in writing and signed by each party to be bound. The provisions relating to expenses, indemnification, limitations on the liability of Indemnified Parties, contribution, settlements, choice of law and waiver of the right to trial by jury will survive any termination of this letter agreement.

6. <u>Parties</u>

This Agreement shall inure to the benefit of and be binding on Enron, Merrill Lynch and their respective successors. Enron has retained Merrill Lynch to act as an independent contractor, and any duties of Merrill Lynch arising out of its engagement shall be owed solely to Enron. This Agreement does not confer any rights upon any person other than Enron, including, but not limited to, any security holder, employee, or creditor of Enron. This Agreement incorporates the entire understanding of the parties with respect to this engagement of Merrill Lynch by Enron, and supersedes all previous agreements regarding such engagement, should they exist.

7. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

ECp000055007

December 23, 1999 Page 5 of 5

8. Consent to Jurisdiction and Waiver of Jury Trial

Enron hereby: (i) consents to personal jurisdiction and service and venue in any court in which a claim subject to this Agreement is brought against Merrill Lynch or any other Indemnified Party, and (ii) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) related to or arising out of the engagement of Merrill Lynch pursuant to, or the performance by Merrill Lynch of the services contemplated by, this Agreement.

Please confirm that the foregoing correctly sets forth our agreement by signing and returning to Merrill Lynch the enclosed duplicate copy of this Agreement.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
By:
Title:
Agreed and Accepted as of the date written above: ENRON CORP.
By:

Bargeco Economic

Bargeco economics are based on a negoliated return with Enron. Enron agreed to arrange a buyer for LJM2's equity within 7 months. LJM2 will receive a 15% annualized return on its investment and a \$350,000 fee.

			-
		Amount	Date
	•	(7,525,000)	6/29/2000
ths		658,438	1/31/2001
		350,000	1/31/2001
ital		7,525,000	1/31/2001
		24%	
	ital		350,000 ital 7,525,000

As of September 30, 2000 LJM2 sold it's equity interest in Bargeco for \$8,235,000.

Realized	Amount	Date
LJM2 investment	(7,525,000)	6/29/2000
15% IRR at 7 months	285,000	10/4/2000
Fee	350,000	10/4/2000
Actual vs. projected expenses (est.)	25,000	10/4/2000
Repayment of Capital	7,525,000	10/4/2000
IRR	37%	

Permanent Subcommittee on Investigations
EXHIBIT #263

DP 034325

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: Nigeria Barges Equity Sell Down

Counterparty: National Electric Power Authority Business Unit: Enron Africa / Pacific / Asia

Business Unit Originator: Sean Long / Keith Sparks

⊠Private

☐Merchant **E**Strategic □Conforming Monconforming Date DASH Completed: January 13, 2000

RAC Analyst: Investment Type: Equity

Capital Funding Source(s): Balance Sheet

Expected Closing Date: December 31, 1999
Expected Funding Date: December 31, 1999

Board Approval: □Pending □Received □Denied ☒N/A

APPROVAL AMOUNT REQUESTED

This DASH represents the sale of 90% of the expected three-year cash flows from Enron's Nigerian Barge Project for \$28 million. Enron will receive \$7 million up-front and \$21 million will be seller-financed by Enron via a three-year loan.

EXPOSURE SUMMARY

This transaction:

\$37.987 million*

Represents Enron net exposure for Phase I after the sale (\$44.987 - 7.0 million). [We are going to loan the spare parts and working capital (total of \$2,740), so the outstanding equity should be reduced by this amount]

DEAL DESCRIPTION

Enron Africa requests approval for two aspects of the Nigerian Barge Project: (i) revisions to the original transaction structure, and (ii) the sale of equity of the Nigerian company, which approximates 90% of the project cash flows for the first three years.

Revisions to Original Structure

The original DASH dated November 29, 1999 represented the sale of emergency power under a three-year PPA to the National Electric Power Authority ("NEPA") of Nigeria. During the final PPA negotiations, NEPA (and the Nigerian Government) asked Erron to commit (i) to a longer-term PPA and (ii) to convert the barges to natural gas. This resulted in a thirteen year and three month. PPA that gives Erron the right to terminate the PPA if the barges are not converted to natural gas within fifteen months. Enron has no obligation to convert to natural gas. The gas conversion costs and resulting economics are uncertain at this time. If the barges are not converted to natural gas within fifteen months and NEPA does not grant an extension for the conversion. Enron can terminate the PPA and force NEPA (backed by the Nigerian government guarantee) to pay a termination payment that is equivalent to the present value of the remaining capacity payments and minimum-take energy payments discounted at LIBOR + 4% of. The structure provides Euron with the flexibility to either terminate the PPA and receive the termination payment or renegotiate the terms of the PPA on or before the fifteenth month.

It is important to note that the \$31 million letter of credit has not been finalized. The region has indicated that the delay is due only to administrative problems and that it should be finalized no later than [date].

Sale of Equity in Nigeria Barge Project Project Cash Flows

The Africa region has agreed to sell equity in a pertion of the cash flows from the Nigerian Barge Project indirectly to Merrill Lynch. The primary objectives of the sale are to accelerate earnings recognition into 1999 (approximately \$124.5 million) and to reduce Enron's capital exposure in Nigeria. The equity Enron sold represents approximately \$124.5 million) and to reduce Enron's capital exposure in Nigeria. The equity Enron sold represents approximately \$0.0 fthe project's first three-year cash flows to a Special Purpose Vehicle ("SPV") for \$28 million. The SPV has a 75%/25% debt to equity capital structure, with \$7 million of equity funded by Merrill Lynch and \$21 million of debt in the form of an Euron 'seller-financed' note. Enron received \$7 million at closing. The note bears an interest rate of 12%, a term of three years, and monthly amortization of \$773.010.33 (the first debt service payment is scheduled to be in April 2000) and is secured by the equity interest in the SPV Merrill Lynch has capital teach in except of debt services of \$48 the service of \$48 the servi interest in the SPV. Merrill Lynch, the equity holder, will receive all cash in excess of debt service.

The transaction is designed such that the equity purchased by the SPV (see below) receives approximately 90% of the available cash flows until it has received an amount of \$37.5 million ("Trigger Amount"). Thereafter, the SPE will receive approximately 1% of the project distributions. Merrill Lynch received a \$250,000 fee at closing. Assuming the Trigger Amount is reached at the end of three years, Merrill Lynch's equity return is expected to be 22.5% exclusive of the fee and

The Nigeria project has issued three classes of stock, two preferred and one common. The SPV purchased the Preferred A Shares and the Common Shares. Enron owns the Preferred B shares. The summary below highlights the economic interests

Permanent Subcommittee on Investigation EXHIBIT #264

ECp000054825

RAC Deal Approval Sheet
Deal Name: Nigeria Barges
before and after the Trigger Amount. In each case, the table indicates the distribution rights of each shareholder class after the
previous class of shareholder has received their percentage share of the distributions

 Stock Class
 Pre-Trigger Amount
 Post-Trigger Amount

 Preferred A (SPV)
 0.1% of DS*
 0.1% of DS

 Preferred B (Enron)
 9.9% of DS after Pref. A
 99.0% of DS after Pref. A

 Common Stock (SPV)
 100.0% of DS after Pref. A & B
 100.0% of DS after Pref. A & B

 *Distributions, which are limited to net income of the Nigerian company.
 The excess cash will be loaned to Enron
 Pre-Trigger Amount 0.1% of DS* 9.9% of DS after Pref. A 100.0% of DS after Pref. A & B Post-Trigger Amount 0.1% of DS 99.0% of DS after Pref. A 100.0% of DS after Pref. A & B

Prior to reaching the Trigger Amount, the SPV will receive approximately 90% of the distributions via the Common Stock and .1% from the Preferred A stock. After the Trigger Amount, the Enron Preferred B Shares receive approximately 99.0% of the distributions and, after the allocation to the Preferred A and Preferred B, the Common Stock receives the residual distributions.

Enron will maintain control of the board of directors of the project company and the SPV.

TRANSACTION UPSIDES None.			
EXIT STRATEGY NA		 	
OTHER RAC COMMENTS: None.	· · · · · · · · ·	 	

RAC Deal Approval Sheet	Deal N	Name: Nigeria Barges	
APPROVALS	Name	Signature	Date
RAC Management	Rick Buy or David Gorte		
Legal	Yao Apasu		
Region Originator	Sean Long or Keith Sparks		
EECC Management	Larry Izzo or Fred Kelly		
Region Management	Rebecca McDonald or Jim Hughes	-	
Enron Capital Management	Andy Fastow or Jeff McMahon		
ENE Management	Jeffrey Skilling		

RAC Deal Approval Sheet Deal Name: Nigeria Barges $\underline{Global\ Finance\ Summary\ (addendum\ to\ DASH)}$

1.	Transaction Summary					
	Total Deal/Project Capital Commitment Less: Financings Less: Syndications Net Earon Investment				Amount (5000)
2.	Investment terms and pricing:		☐ Market	☐ Above Market	t 🗅 Below Marke	t
	Describe (if necessary):		•			
3.	Financing terms and pricing:	☐ Marke	t 🗅 Abov	re Market 🗅 Belov	w Market	
	Describe (if necessary):					
4.	Legal or practical liquidity restrictions: Restricted		☐ Unrestricted	☐ Legally Restri	icted 🚨 Prac	tically
	Describe (if necessary):		* •			
5.	Any recourse to Enron (other than investm	nent):		□ Recourse	□ No I	Recourse
	Describe (if any):					
6a.	Business unit intent to syndicate:		□ None	☐ Partial	□ All	
	Describe (if necessary):	-				
6b.	Intended Enron hold period:		, .			
6c.	Likely Syndication Market:		try/Strategic Pa □ Capital Marl □ JEDI 2 □ LJM 1 or 2 □ Other:		ct Private Equity JEDI 1 Enserco Condor Margaux	ÿ
6d.	Is this a JEDI 2 "Qualified Investment"?		□ Yes	· · · No		
Gle	obal Finance Representative:			Rob Gay		
J.	TOPICOLIMIA VI	Signature		Name (Printe	ed)	Date
C·II	OCUME-1\ADMINI~1\I.OCALS~1\Temp\Dash Niger	ria merrill sale (Accounting Commen	its).doc		Page 4

ECp000054828

Dan O. Boyle 2000 Deals and Accomplishments

Nigerian Barges

Successfully closed \$28 mm equity sale to ML on 12/30/00. Equity sold represents 90% of the first three years of cash flow from the project, allowing ENE to retain upside relating to long term PPA. Equity purchased by a ML SPV, which was capitalized with \$7.0 mm equity contribution and a \$21 mm of seller financing. Negotiated the terms of equity and seller financing to achieve sale treatment, resulting in a before tax gain of \$12.5 mm. ML stated intention (with ENE's commitment) is to sell the equity position by 6/30/00 but business unit not in a position to market ML equity to third party investor by deadline. Negotiated and executed the sale of the ML equity to LJM, fulfilling obligation to ML. LJM equity subsequently sold to AES on 9/30/00. Eric Boyt, Paul Palmer, Ace Roman, Keith Sparks, Ed Essandoh and Martha Braddy were instrumental in closing the various stages of the transaction.

Project MacArthur

Successfully unwound the FAS 125 transaction (originally closed in 3/99) via documented auction process. At the time of the bid, it was the intent of ENE APACHI to sell its investment in the project to its partner (Tomen) prior to the funding of the unwind. Subsequent to the submission of the bid, APACHI was reorganized and the sale to Tomen fell through. Given the sequence of events, it was no longer possible to keep the asset from touching the ENE balance sheet, however we identified a strategy to sell the asset to Whitewing and meet the FAS 66 guidelines. Unfortunately, Whitewing was fully utilized at quarter end and the asset was placed on balance sheet. The day before the release of the second quarter 10Q, AA raised an issue relating to the asset valuation, as determined by the independent appraisal, and the bid submitted by ENE APACHI. Worked with the independent appraiser to resolve this issue in a matter of hours, avoiding a write off of \$1.5 mm and the possible reversal of the original gain. Barry Schnapper, Rodney Faldyn, Steve Jernigan and Brain Blakley were closely involved in the transaction.

Blue Dog

Worked successfully with EE&CC, LJM and GE to close the purchase of two EA6 turbines over a ten-day period. The transaction gives EE&CC a six month option (11/10/00) to purchase the turbines, maintaining maximum flexibility for the turbines ultimate disposition. Worked closely with accounting, legal and ENE North America to negotiate appropriate assignment provisions in light of conflicting positions of GE and LJM. Successfully originated "Agency and Development" concept to accommodate "market" liquidated damages and finalized negotiations of the option premium and option period with LJM. Coordinated with Lisa Bills to accommodate schedule for take out of these turbines along with those in the West LB structure. Big team effort involving Trevor Randolf, Rose Engledorf, Lisa Bills, Rodney Faldyn, Ryan Surek, Michael Hinds, Ace Roman as well as EE&CC team.

Dragon

Participated in the early stages of the joint venture proposal with Marubeni to purchase power generation assets of Sithe Asia and the contribution of Asian power generation assets of JV partners to establish a pan-Asian IPP with financial strength necessary to aggregate additional Asian power assets. Worked closely with Jeremy Thirsk to evaluate capital requirements and develop alternative funding structures as the transaction evolved. Project started as an evaluation of all assets in APACHI (Diva) but the focus has narrowed to the four operating, cash generating assets in the APACHI portfolio. A very significant time commitment, functioned primarily as the liaison between the region and head office, including presentations to senior management of APACHI, working with ML and coordination of the engagement of potential lenders (ABN and CFSB). Removed from the project in May with move to Corporate Finance. Enron withdrew from project in 10/00.

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LJM036779

Permanent Subcommittee on Investigation
EXHIBIT #265

SK Enron

Project under development to monetize \$278 mm equity investment in SK Enron joint venture and capture CTA gain. Objective is to extract as much cash as possible while providing the joint venture with a two-year window to develop the business sufficiently to support an IPO. Additionally, seek to layoff a portion of the Korean credit risk via the monetization. Initiated meetings with tax and accounting to discuss conceptual alternatives for the structure in light of the significant tax and trapped cash issues. Next step hinged on the development of a financial model, approved by APACHI and ENE senior management, which accurately represents the current value and cash generating capacity of the SK Euron joint venture. Removed from project in May with move to Corporate Finance.

Osprey

Team leader responsible for successful closing of \$1.1 billion follow on offering for Osprey. Transaction incorporated the sale of an additional \$50 mm of equity as well as the marketing and sale of \$750 mm, 7.797% and €315 million, 6:375% senior secured notes due 2003. DLJ (\$ tranche) and Deutsche Bank (€ tranche) were joint book running managers with CSFB, Lehman and UBS servings as co-managers. Responsible for negotiating fees, drafting revisions to offering memo, developing and participating in U.S. and European road show, resolving structural issues primarily related to € tranche, finalizing pricing and execution documents. Primary challenge related to incorporating the € tranche into the structure and mediating DLJ (which was acquired by CSFB during the transaction) and Deutsche Bank. Pricing was very tight to the existing Osprey notes with a new issue premium of approximately 5 bpts and virtually no additional premium for the € tranche.

Worked with Ryan Siurek to develop structure alternative that would permenantly avoid expensing all the deal related fees. Due to last minute changes in the documents, the alternative could not provide all of the intended benefit, however, our position with AA was modified and we were successful achieving half the original intended benefit. Total transaction costs of \$16.5 mm. Of this amount, \$9.0 mm relates to "opportunity costs" of the FX hedge. These costs will not be expensed but will be absorbed by the future appreciation of the ENE stock held by Condor. The balance of the deal fees, \$7.5 mm, will be amortized over the life of the transaction.

Transaction provided critical liquidity to the Osprey structure and expanded Enron's funding base by bringing in new European investors. The offering was the last structured transaction off the DLJ capital markets desk and one of the first BBB rated, structured transactions in the Euro market. The follow on offering was preceded by indepth discussions with Deutsche Bank regarding a structural enhancement that would have taken the follow on offering off ENE's credit by means of an equity derivative. Very strong team effort including Trevor Randolf, Ryan Siurek, Julia Chin, Gina Karathanos, Ame Marie Tiller, Brent Vasconcellos

EE&CC

Served as the EGF liaison with EE&CC and RAC following Don Herrick's move to Networks. In addition to Blue Dog which is discussed above, reviewed and coordinated the DASH \FASH approvals for Blue Girl, Bethlehem Steel, EPC #63, EPC #64, Wolf Hollow and the Nigerian Barge EPC. Worked with Gordon McKillop to facility or evaluate several EE&CC projects with LIM or into Condor.

Tammy

Coordinated one phase of Project Tarmny. Initiated discussions with Chase regarding the sale of the minority interest in the structure. Coordinated the contribution of the EREC option to Tarmny and reviewed the ENE debt portfolio to identify appropriate debt issues to use in the structure in light of Project Summer. Inherited the project from Charlie and subsequently returned to Charlie for execution.

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LJM036780

Campaign 2K

Campaign 24.

As part of the yearend monetization effort to generate funds flow, coordinated the effort to evaluate the following assets: EREC, Hainan Island cash and receivable, Active Power, Catalytica, Copel, McGarrett A, Avici, Networks Limited Partnership interest. Currently in the process of structuring \$100 mm FAS 125 with Barclays relating to our equity investments in Catalytica and Avici. Closing scheduled for 12/11/00.

Working with Ann Yaegar to close \$150 -200 mmn FAS 125 prior to yearend with Citibank relating to our LP interest in Enron Networks Partners. In the event that the Network partnership does not close prior to yearend, we are developing a structure to create a "synthetic" partnership that will allow the FAS 125 transaction to proceed, achieving income statement and balance sheet objectives.

Analyst and Associate Recruiting

Analyst and Associate Rectuiting Finance Team leader under Paula Rieker responsible for analyst recruiting at Texas A&M. Participated in four organizational meetings, recruiting training, campus visits with key faculty and staff as well as on campus recruiting. In addition, participated in on campus interviews at Thunderbird, one Super Saturday dinner and a dinner in College Station to cultivate a relationship with the students that were offered positions.

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yman - Benef	it Summar Gin millions) soo 255.5 1,485.0 1,740.5 51	LTY Total 812.3 255.5 1,500.0 64.0 51,831.8	<u>Birest</u> \$0.0 0.0 0.0 1.18 \$1.8	Escritogs (S in millions) Indirect \$20.0 222.0 0.0 \$242.0	Total \$200 2220 00 00 18 \$2243.8
	•	Total 512.3 255.5 1,500.0 664.0 ,831.8	,	nings (5 in millions) halirest \$20.0 222.0 0.0 \$242.0	Total \$200 2220 00 1.8 \$2.43.8
\$12.3 0.0 15.0 64.0 wn \$91.3 \$		812.3 500.0 66.0 831.8	\$50 00 00 \$1.18 \$1.18	\$20.0 222.0 0.0 \$242.0	\$20.0 222.0 0.0 1.8 \$243.8
15.0 64.0 891.3		,500.0 ,64.0 ,831.8	0.0 S1.8 S1.8	0.0 0.0 \$242.0	0.0 1.8 \$243.8
		, e =			-
MK009293				Confidential Treatment Requested	tment

Permanent Subcommittee on Investigations
EXHIBIT #266

LJM Investments	tment	S					
LJM2 - Benefit Summary	nefit S	ummary					
		Funds Flow (\$ in millions)				Earnings (5 in millions)	
	Direct	Indirect	Total		Direct	Indirect	Total
LJM2			;		Ş	Š	ŝ
SE Acquisitions ^[8]	20:0	\$0.0	20.0		\$2.7	0.04	27.76
Nowa Saryzna	30.0	7.9	37.9		16.0	4.0	20:0
Resco	[TBD]	0.0	0:0		20.0	0.0	20.0
ENA CLO Equity	6.3	0.0	6.3		0.0	19.0	19.0
ENA CLO Debt	11.2	156.7	167.9 (4)		0.0	0.0	0.0
BEX	3.3	101.7	105.0	٠.	5.0	0.0	5.0
Coyote Springs II	0.0	39.0	39.0		0.0	3.0	3.0
Pluto	0.8	24.0	24.8		2.5	0.0	2.5
Vosemite	33.8	766.2	800.0		0.0	0.0	0.0
Raptor	0.0	0.0	0.0	-	74.9	443.0	517.9
Rawhide (4)	0.0	750.0	750.0		0.0	0.0	0.0
Backbone	30.0	0'69	0.66		55.0	21.7	76.7 (*)
Bargeco	0.0	28.0	28.0		2.0	12.0	14.0 0
EE&CC Turbines	0.0	0.0	0.0		0.0	1.5	1.5
Raptor / TNPC	0.0	0.0	. 0:0		0.0	196.0	196.0
NetWorks	8.0	200.0	208.0		0.0	100.0	100.0
Awel	1.1	34.6	35.7		0.0	0.0	0.0
Catalytica.	1.8	58.2	0.09	•	0.0	0.0	0.0
TNPC	0.0	0'0	0.0		0.0	0.0	0.0
Osprey	26.0	1,134.0	1,160.0		0.0	0.0	0.0
Margaux	10.0	115.0	125.0		0.0	00	0.0
Subtotal LJM2	\$162.3	\$3,484.3	\$3,646.6		\$177.6	\$800.2	\$977.8
	chomme of william	ned the following assets from	Euran at year-end 199	9: Nowa Sarzuna	ENA CLO	F J. T. M. T	
(a) Facilitated LJM 2's a	ratio for earnin	ise ine jouowing ussels from 1gs in excess of a 30% returi	t on LJM's capital allow	ed the business	mit to show	Facilitated Libit's ability to purchase ine joudening hasts, from Linguistics and 1777, common spirit and loss on the Merlin transaction. Without Instituting a sharing ratio for earnings in excess of a 30% return on LIM's capital allowed the business unit to show no loss on the Merlin transaction. Without	on. Without
	business unit w	he sharing ratio, the business unit would have suffered a \$19 million loss.	illion loss.				
(c) \$174.2 million is the	total fund flow	for the Merlin transaction (including debt and equi	ty), which was m	ade feasible	5174.2 million is the total fund flow for the Merlin transaction (including debt and equity), which was made feasible by LM2's purchase of the equity and the	ity and the
bridge piece.				:			
	Harch Capital's	LMP is purchase of Harch Capital's equity investment facilitated the extension of the Rawhide structure. Exeminas to Fusan Include 815 million pain on sale, 52.7 million of interest received on seller-financing, is	ed the extension of the R n of interest received on	awhide structure seller-financing	and \$21.7 n	And Ya vunches of March Cappaint's equiversement by western of the Cappaint of	the Abers were
(e) Earlings to Enron include 355 million games. Sold and LM2 received its agreed upon return.	ved its agreed u	pon return.					,

sold and LMS received seprectyon return.

(i) Meritt Lyng perchased Bargeof from Euron with the understanding that they would be taken out within six months. LM2 purchased Merrill's interest preserving the relationship and as an alternative to Euron buying it back and reversing \$12.0 million of eirnings and \$28.0 million of funds flow taken on the original transaction with Merrill in 1999, \$2.0 million of earthings were interest earned on seller financing.

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MK009294

Overall	Overall - Benefit Summary					
	Direct	Funds Floy (\$ in millions) Indirect	Total	Direct	Earnings (S in millions) Indirect	Total
LJM Cayman LJM2	\$91.3	\$1,740.5	\$1,831.8	\$11.8	\$242.0	\$243.8 977.8
Total	\$253.6	\$5,224.8	\$5,478.4	\$179,4	\$1,042.2	\$1,221.6
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						-
	-					
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						-
				•		
	•					
		*			Confidential Treatment	reatment
MICOCOL	_				Requested	ted
S6Z600VIN						

Definitions

Direct Funds Flow- Usually the direct investment made by LJM. For example, LJM invested \$30 million of equity in the Backbone fibers or LJM purchased the Catalytica 125 equity for \$1.8 million.

Indirect Funds Flow- Any other funds flow that resulted from LJM's direct investment. For example, LJM's Catalytica 125 equity was joined with \$58.2 million of debt so Enron received proceeds (total funds flow) of \$60 million, but only a portion of that is directly attributable to LJM.

Direct Earnings- Direct earnings to Enron including: gain on sale, interest income received on seller financing, etc. For example, Backbone generated a gain on sale of \$55 million. The seller financing produced \$2.7 million of interest income. For Raptor, direct earnings is from swaps that have settled.

Indirect Earnings- Usually earnings taken in previous periods that Enron would not have to reverse because a transaction with LJM preserved them. Also includes Enron's participation in upside sharing when the asset is sold by LJM. For example, the sale by LJM of the Backbone fibers to a 3rd party generated \$21.7 million of upside for Enron (the value above and beyond LJM's agreed upon return). For Raptor, indirect earnings are from unsettled swaps.

MK009296

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Confidential Treatment

MK009297

Requested

LIM Investments Deal Benefit Summary - Alphabetical solution of execution (two weeks) No other 3rd party would purchase 125 equity on a public security (capped upside, all downside) Backbone Craved funds flow Generated earnings to reach EBS's earnings target Provided upside to EBS on ultimate sale to 3rd party BargeCo Preserved Merrill Lynch relationship by taking them out Unless Enzon could find another 3rd party buyer for Nigerian barges, Enron would have reveresed earnings from sale to Merrill Catalytica Speed of execution (two weeks) No other 3rd party would purchase 125 equity on a public security (capped upside, all downside) No other 3rd party would purchase 125 equity on a public security (capped upside, all downside) Coyote Springs II Reclinated Enron's deal to sell a turbine and development project to Avieta Brought forward earnings to time of sale tather than over time Culaba Brought forward earnings to time of sale tather than over time Culaba Deconsolidated the power plant and generated mark-to-market earnings on the gas supply contract LIM agreed to an extension without a step-up in tetum, saving ESA money and allowing more time for ESA to sell Cuiaba EEECCTurbins Kept a turbine of Emon's balance sheet and allowed Enron further flexibility even though the turbine's value was decreasing LIM extended the option exercise period to give Enron further flexibility even though the turbine's value was decreasing

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MK009298

EEX (Bob West Treasure) Allowed ENA to mark-to-market gains on gas prepay Provided time to refinance the debt and generate further gains ENA CLO Debt & Equity (Merlin) LJM Caynt. In Formation Funds flow from the promissory note and unlocking of increased value of Enron shares Margun. Deconsolidated the pulp & paper business Generated \$100 million of earnings Nowa Sarzyna Nowa Sarzyna Deconsolidated the pulp & paper business Generated \$100 million of earnings Nowa Sarzyna LJM provided ease and certainty of execution while marketing continued with other 3rd parties Pluto (MEGS) Huto (MEGS) Allowed ENA to mark-to-market earnings on the gas gathering contract No other 3rd party would take the Mariner exposure in the timeframe that LJM did

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MK009299

EJM Investments Deal Benefit Summary - Alphabetical Raptors (12,4) • Avoided realized losses of \$75 million and unrealized losses of \$443 million on Enron's volatile investments • LIM extremely accomodating on derivative approval Raptor 3 (TNPC) • Avoided unrealized losses of \$150 million and unrealized losses of \$443 million on Enron's volatile investments Raptor 3 (TNPC) • Avoided unrealized losses of \$150 million on Enron's total return swap exposure in Hawaii 125-O Rawhide • LIM purchased Harch's equity, facilitating Rawhide's extension (Harch needed out and would not agree to extension) Resco • Deconsolidated EES's residential business while it gained critical mass • Avoided consolidation of negative earnings onto Enron's income statement Rhythms/Net • Generated \$222 million of earnings on Enron's income statement • Generated \$222 million of earnings on Enron's income statement • To May sat the only counterparty available for guaranteed execution and confidentiality SE Acquisition Loan • Provided additional iquidity to LIM to make Enron investments and generated interest income for Enron TNPC • LIM brought in additional capital by bringing in co-investors Vosemite • Speed of execution (deal that had to close by year-end) • Provided additional time to find permanent 3rd party buyer for the equity

Facsimile Cover Sheet

To: Milita Wa

Company: 3WC Phone:

Fax: 646 - 471 - 270 i

From: Andrew S. Fastow Au Roman

Company: LJM2 Co-Investment, L.P.
Phone: 713-859-7427 7/3-853-5587
Fax: 713-646-8656

Date: 5/2/01

Pages including this

cover page: 4

Comments:

Middle ,

LSM2 proclased mil sold the Istare

that worker up the equity in EBARBE LLE [Ment Lynch Spu).

All leps + warrardies in the proclax isale agreements between LEM + Menil and between Ligar + HES (timely bettern) were coladel to the Ishar of EBARGE,

- All Roman

LJM028782

Permanent Subcommittee on Investigations EXHIBIT #267

SCHEDULE 1

PARTICULARS OF THE COMPANY

Name: Enron Nigeria Barge Ltd.

Registered office: 35 Moloney Street, Lagos, Nigeria

Registered number: R.C. 366,057

Date and place of incorporation: 7th October 1999, Abuja, Nigeria

Directors: James V. Derrick

James A. Hughes
Rebecca A. McDonaid
Cassandra R. Schultz
Gbenga Oyebode

Secretary: Gbenga Oyebode

Authorised share capital: N10,000,000

Issued share capital:

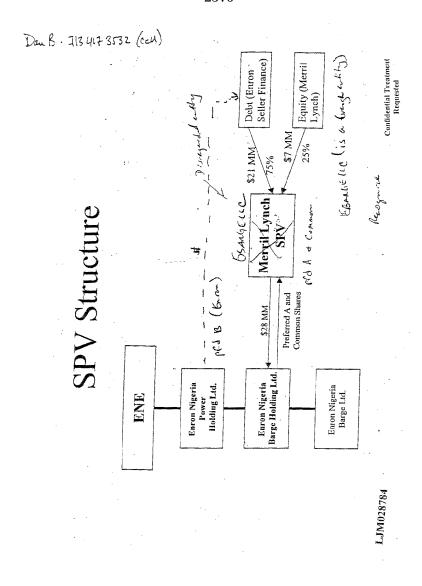
Preferred A shares: 1,000 of N1,000 each
Preferred B shares: 3,000 of N1,000 each

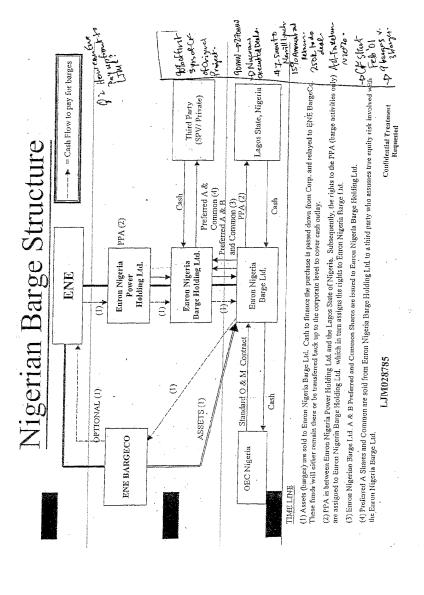
Ordinary shares: 1,000 of N1,000 each

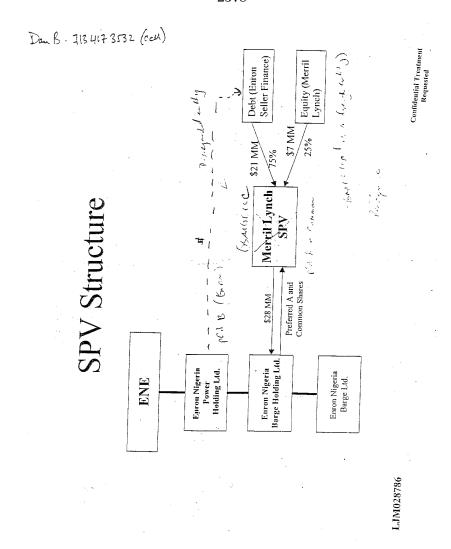
LJM028783

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April 24, 2002

BY HAND

The Honorable Carl Levin Chairman Permanent Subcommittee on Investigations Committee on Governmental Affairs United States Senate Washington, D.C. 20510-6250

Dear Mr. Chairman:

I write on behalf of Merrill Lynch in response to your April 10, 2002 letter requesting information and documents relating to Merrill Lynch's dealings with Enron Corporation. Merrill Lynch appreciates this opportunity, and is producing the requested materials to the Subcommittee on a voluntary basis.

Merrill Lynch has invested significant resources in reviewing currently available records and information to respond to the Subcommittee's requests. The enclosed materials (bates stamped MS 00001 through MS 21427) represent the majority, or entirety, of materials likely to be identified as responsive to a number of the requests. Given time constraints and other limitations noted below, however, Merrill Lynch is continuing the process of identifying and collecting additional responsive materials and will produce such materials to the Subcommittee on a rolling basis. In particular, damage caused by the September 11 terrorist attacks, as well as technical limitations, has delayed full retrieval of archived e-mail communications. Access to a large volume of pre-September 11 e-mail communications, for example, is simply not possible at this time.

As requested in your April 10 letter, attached hereto as Exhibit A is a chart detailing Enron-related transactions responsive to your requests. Exhibit A provides information regarding specific advisory, capital markets, credit facility and proprietary transactions, and also includes a general description of the various types of derivatives trades Merrill Lynch engaged in with Enron-related entities.

Finally, we note that we have had several helpful telephone conversations with Bob Roach to clarify the scope of some of the requests in order to provide the Subcommittee with the most pertinent information at the outset.

Merrill Lynch's initial responses to your specific inquiries are set forth below.

Request #1

Enclosed herewith are materials (bates stamped MS 00001 through MS 04970) responsive to Request #1. Merrill Lynch is continuing its efforts to identify and collect any additional responsive materials, and will produce any such materials on a rolling basis.

Permanent Subcommittee on Investigations EXHIBIT #268 NYA 531806.2

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ROGERS & WELLS

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The Honorable Carl Levin April 24, 2002 Page 2

Requests #2 and #3

Merrill Lynch is in the process of identifying and collecting materials responsive to Requests #2 and #3, and will produce such materials as they become available.

Request #4

Pursuant to our conversations with Bob Roach, enclosed herewith are materials (bates stamped MS 04970 through MS 06646, and MS 07273 through MS 21269) responsive to Request #4 relating to EBARGE, LLC and the LJM partnerships.

Request #5

Documents responsive to Request #5 are enclosed herewith within the materials provided in response to Request #4 (bates range MS 07273 through MS 21269).

Request #6

Any available documents responsive to Request #6 are enclosed herewith within the materials provided in response to Request #4 (bates range MS 07273 through MS 21269).

Request #7

Documents responsive to Request #7 are enclosed herewith within the materials provided in response to Request #4 (bates range MS 07273 through MS 21269). Merrill Lynch is continuing its efforts to identify and collect any additional responsive materials, and will produce any such materials on a rolling basis.

Request #8

Enclosed herewith are materials (bates stamped MS 06647 through MS 07272) responsive to Request #8. Pursuant to our discussions with Bob Roach, these materials have been culled from all available Enron-related files maintained by or on behalf of Robert Furst, Schuyler Tilney, Louis Chiavacci, and Robert Jones (relationship manager for Enron until 1998). We believe, based upon a comparison of these responsive documents with those otherwise available concerning LJM, EBARGE and one additional Enron-related transaction, that an omnibus search of all transaction files would be unlikely to retrieve any significant amount of additional substantive documents responsive to this request.

Requests #9 and #10

Documents responsive to Requests #9 and #10 are enclosed herewith within materials provided in response to Request #4 (bates range MS 04970 through MS 06646).

Request #11

Documents responsive to Request #11 are enclosed herewith within materials provided in response to Request #4 (bates range MS 07273 through MS 21269). Merrill Lynch is continuing its efforts to identify and collect any additional responsive materials, and will produce any such materials on a rolling basis.

NYA 531806.2

C L I F F O R D C H A N C E R O G E R S & W E L L S

CLIFFORD CHANCE ROGERS & WELLS LLP

The Honorable Carl Levin April 24, 2002 Page 3

Request #12

Merrill Lynch is in the process of identifying and collecting materials responsive to Request #12, and will produce such materials as they become available.

Finally, you have noted that the Subcommittee staff may seek to interview Merrill Lynch personnel after reviewing the enclosed materials. Merrill Lynch will urge both current and former employees to cooperate fully with the Subcommittee. Please do not hesitate to contact me should you wish to conduct such interviews, or should you have any questions or further requests.

Respectfully

James B. Weidner

D.B. andw

enclosures

NYA 531806.2

MERRILL LYNCH TRANSACTIONS WITH ENRON-RELATED ENTITIES (1997 TO PRESENT)

ADVISORY

CAPITAL MARKETS (DEBT AND EQUITY OFFERINGS)

TO EXPLOYED FROM THE PARTY OF A		
	\$852,000	\$159,745
MERRILL LANCH FEES	Lead manager	Sole manager
DESCRIPTION	\$150 million offering of 8.125% Perpetual Trust Originated Preferred Securities	November 6, 1997 \$200 million offering of floating rate Remarketed Reset Notes due November 15, 2037
O O COLOR	January 13, 1997	November 6, 1997
DATE OF UNDERWRITING: PURCHASE, OR SMILAR AGREEMENT	January 13, 1997	November 6, 1997
DATE OF ENRON-RELATED FUNGRASE, OR ENTITY SIMILAR AGREDMENT	Enron Corporation	Enron Corporation

ENRON-RETAILS	DATE OF UNDERWRITING PURCHASE, OR SIMILAR AGREPMENT	ORPBRING	DESCRIPTION	MERRIL LYNCH ROLE	
Enron Corporation	May 5, 1998	May 5, 1998	\$750 million offering of 15 million shares of common stock at \$50 per share	Co-manager (Lead manager Credit Suisse First Boston)	\$2,441,000
Enron Corporation	September 28, 1998	September 28, 1998	\$250 million offering of floating rate notes due March 30, 2000	Lead manager	\$223,000
Enron Corporation	November 12, 1998	November 12, 1998	\$49 million private placement of Medium-Tern Structured Enhanced Return Trust Debt Units	Placement agent	\$245,000
Enron Corporation	February 11, 1999	February 11, 1999	\$752 million offering of 12 million shares of common stock at \$62.6875 per share	Co-manager (Lead managers Credit Suisse First Boston and Donaldson Lufkin & Jenrette)	\$1,952,000
Enron Corporation	November 29, 1999	November 29, 1999	¥10 billion offering of Euro Medium Term Notes 0.58% due November 30, 2000	Lead arranger and sole book runner	\$80,000

E SALE SALE SALE SALE SALE SALE SALE SAL	DAJE OF UNDERWAITING, PURCHASE, OR SIMILAR AGREEMENT	DATENG	DESCRIPTION	MERROLL YNCH ROLE	
Enron Corporation	December 29, 1998	December 29, 1998	\$41.4 million private placement of PR-B Interest Owner Trust Interest Notes	Placement agent	\$346,500 (an additional \$252,078
Enron Corporation	December 29, 1998	December 29, 1998	\$25.8 million private placement of WR-B Interest Owner Trust Interest Notes	Placement agent	2000 in connection with rollover)
Enron Corporation	April 28, 2000	April 28, 2000	¥20 billion offering of Euro Medium Term Notes 0.51% due May 2, 2001	Lead arranger and sole book runner	\$246,000
Enron Corporation	May 16, 2000	May 16, 2000	¥20 billion offering of Euro Medium Term Notes 0.48% due May 17, 2001	Lead arranger and sole book runner	\$226,000
Enron Corporation	May 17, 2001	May 17, 2001	¥25 billion offering of Euro Medium Term Notes 0.520% due May 15, 2002	Lead arranger and sole book runner	\$257,000
Enron Corporation	June 14, 2001	June 14, 2001	440 billion offering of Euro Medium Term Notes (Euron North America) 30-month Yen LIBOR + 62 basis points due June 18, 2003	Lead arranger and sole book runner	\$830,000

A to the second				9	_	
The second secon	\$208,000	\$95,000	\$154,000	\$20,537,000	83,552,000	\$87,000
KONTON OF THE PROPERTY OF THE	Lead arranger and sole book runner	Lead arranger and sole book runner	Lead arranger and sole book runner	Lead manager	Lead manager	Co-manager (Lead manager Goldman Sachs)
DESCRIPTION	¥10 billion offering of Euro Medium Term Notes (Enron North America) 0.770% due June 14, 2002	¥10 billion offering of Euro Medium Term Notes (Enron North America) 0.970% due June 18, 2604	*20 billion offering of Euro Medium Term Notes (Euron North America) 0.493% due June 13, 2002	\$695 million initial public offering of 36.6 million shares at \$19 per share	\$200 million offering of high- yield bonds (10.75% senior notes due February 15, 2010; \$240 million, 100 million British pounds 10.375% senior notes due February 15, 2007	\$100 million offering of 6.5% notes due 2007
DATE OF THE CASE O	June 14, 2001	June 14, 2001	June 22, 2001	June 9, 1999	February 11, 2000	November 25, 1997
DATE OF UNDERWEITING, PURCHASE, OR SIMILAR AGREEMENT	June 14, 2001	June 14, 2001	June 22, 2001	June 9, 1999	February 11, 2000	November 25, 1997
ENRON-RELATED ENTITY	Euron-Corporation	Enron Corporation	Enron Corporation	Azurix Corporation	Azurix Corporation	Enron Oil & Gas

VA 531504 1

The second secon	DATE OF UNDERWRITING: PURCHASE, OR SIMILAR AGREEMENT	JATE OF	DESCRIPTION	MERRIT LYNCH ROLE	The property of the property o
Enron Oil & Gas	August 10, 1999	August 10, 1999	\$689.75 million offering of 31 million shares of conunon stock at \$22.25 per share	Co-manager (Lead manager Goldman Sachs)	\$2,212,000
Enron Teesside Operations Ltd.	May 1999	August 15, 1999	\$116 million private placement of debt securities	Placement agent	\$2,614,000
Sutton Bridge Financing Limited	May 30, 1997	May 30, 1997	\$150 million offering of 7.97% guaranteed secured bonds due 2022, 165 million British pounds 8.62% guaranteed secured bonds are 2022.	Lead manager	\$1,170,000
LM2 Co-Investment, September 16, 1999 L.P.	September 16, 1999	December 15, 1999 (initial closing) (three additional closings between February and April 2000)	Merrill Lynch raised approximately \$265 million of \$390 million private equity fund	Placement agent	\$3,045,000

III. CREDIT FACILITIES

FEES, INTEREST', LOSSES	\$25,000 (fee); LIBOR plus 45 basis points per annum (interest)	\$7,000 (fee); LIBOR plus 45 basis points per amum (interest); <\$33.6 million> (loss exposure)	\$93,750 (fee); LBOR plus 150 basis points per annum (interest)	\$160,000 (fee). LIBOR plus 102 basis points per ammum (inferest); <\$22.5 million> (loss exposure)
MERRILL LYNCH ROLE	Syndicate member (Agent banks – Salomon Smith Barney and Chase Securities, Inc.)	Syndicate member (Agent banks – Salomon Smith Barney and JPMorgan)	Syndicate member (Agent bank – Chase Bank of Texas, NA)	Syndicate member (Agent bank – JPMorgan Chase)
DESCRIPTION CONTRACTOR OF THE PROPERTY OF THE	Merrill Lynch Bank U.S.A. commitment of \$50 milion to (1) \$1.25 billion five-sear senior unsecured credit facility, and (2) \$1.75 billion 364-day senior unsecured revolving credit facility	Merrill Lynch Bank U.S.A. commitment of \$50 million to (1) May 2000 \$1.25 billion five-year senior unsecured credit facility, (2) renewal of May 2000 \$1.75 billion 564-day senior unsecured revolving credit facility, and (3) two-year letter of credit facility, and (3) two-year	Merrill Lynch commitment of \$25 million to \$150 million loan facility (repaid February 2000)	Merrill Lynch commitment of \$40 million to \$482 million senior secured five-year non-amortizing loan
DATE OF COMMITMENT	May 18, 2000	May 14, 2001	September 29, 1999	March 31, 2001
ENRON-RELATED ENTIFY	Enron Corporation	Enron Corporation	Azurix Corporation	Zephyrus Investments, LLC

For each credit facility, the listed interest rate reflects the generally applicable rate as of the commitment date. The terms of each credit facility called for modifications to the applicable rate upon certain events, including, for example, a change in the debtor's credit rating.

FEES,INTEREST, LOSSES	\$15,000 (fee); LIBOR plus 300 basis points per annum (interest)	\$50,000 (fee); LIBOR plus 300 basis points per annum (interest); <\$5.8 million> (loss exposure)
MERRILI: LYNCH ROLE FEESJIVTEREST', LOSSES	Syndicate member (Agent bank Chase Securities, Inc.)	Syndicate member (Agent bank – Dresdner Bank AG)
DESCRIPTION	Merrill Lynch Capital Corporation Syndicate member (Agent commitment of \$10 million to \$65 million bank Chase Securities, Inc.) 364-day unsecured revolving credit facility (tepaid November 2000)	Mertill Lynch Capital Corporation commitment of \$10 million to \$120 million five-year sentor unsecured revolving credit facility (replaced commitment in July 2000 facility)
DATE OF COMMENSENT	July 26, 2000	November 13, 2000
ENRON-RELATED DATE OF ENTITY COMMITMENT	LJM2 Co-Investment, July 26, 2000 L.P.	LJM2 Co-Investment, November 13, L.P. 2000

IV. PROPRIETARY INVESTMENTS

FEES	\$250,000 (advisory fee), \$525,000 (gain realized through June 2000 sale of interest)	N/A	N/A
MERRIES LYNCH ROLE	Principal	Limited partner	Limited partner
DESCRIPTION	Merrill Lynch purchase of shares of Enron Nigeria Barge, Ltd. for \$7 million	Merrill Lynch proprietary investment of Limited partner \$5 million	Investment of \$17.6 million by 97 Merrill Limited partner Lynch employees
DATE OF INVESTMENT		December 21, 1999	April 5, 2000
ENRON-RELATED DATE-OF ENTITY INVESTMENT	Enron Nigeria Barge December 29, Holding, Ltd.	LJM2 Co-Investment, December 21, L.P.	L.P. April 5, 2000 L.P.

V. DERIVATIVES TRADING

ENTITY ENTITY Enron Power Marketing,	DATES OF TRANSACTIONS June 1999 – March 2001	Energy derivative trades	WERRILL TNCH ROLE Counterparty
Inc. Enron North America Corporation	June 2000 November 2001	Interest rate swaps	Counterparty
Enron North America Corporation	Mid-1999 – November 2001	Spot and forward foreign exchange transactions	Counterparty
Enron Credit Derivatives	March 2000 – October 2001	Cred!! default swaps and credit default basket transactions	Counterparty
Enron North America Corporation	June 2000 - October 2001 Equity swaps	Equity swaps	Counterparty

IOCESH I LIEBERMAN CONNECTICUT, CHAIRMAN

CARL LEVIN, MICHIGAN
DANIEL K., AKAA, HAWASI
RICHARD J. DURBIN, ILLINOIS'
ROBERT G. TORRICELLI, NEW JERSI
MAX CLELAND, GEORGIA
THOMAS R. CARPER, DELAWARE
JEAN CARNAHAN, MISSOURI

FRED THOMPSON, TENNESSEE TED STEVENS, ALASKA SUSAN M. COLLINS, MAINE GEORGE V. VONOVICH. OHIO PETE V. DOMENICI, NEW MEXICO THAD COCHANN, MISSISIPPI ROBERT F. BENNETT, UTAH JIM BUNNING, KENTUCKY

JOYCE A. RECHTSCHAFFEN, STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, DC 20510-6250

August 16, 2002

Mr. G. Kelly Martin Senior Vice President Merrill Lynch, Pierce, Fenner & Smith, Inc. 4 World Financial Center 250 Vesey Street, 32nd Floor New York, NY 10080

Dear Mr. Martin:

Thank you for appearing before the Senate Permanent Subcommittee on Investigations at its July 30, 2002, hearing. In the course of questioning, you agreed to provide additional information with respect to several matters. In addition, the Subcommittee has a number of follow-up questions that it requests you answer. Please provide your responses in writing by August 30, 2002. If Merrill Lynch possesses documents or other materials relevant to the issues raised below that it has not already produced, please provide them to the Subcommittee with your responses.

- 1. Why did Merrill Lynch redomicile Ebarge, LLC in the Cayman Islands?
- Did Ebarge, LLC ever pay any taxes to the United States? If so, how much did it pay?
 Did it ever pay taxes to any other jurisdiction? If so, how much did it pay and to whom?
- 3. Did Merrill Lynch conduct a review of the conference call involving, inter alia, Daniel Bayly of Merrill Lynch and Andrew Fastow of Enron that occurred in mid-to-late December 1999 relating to the Nigerian barge transaction? If so, please provide the results of that review and all documents relating to the conference call and Merrill Lynch's review of that call. Please include all documents containing communications to or from Mr. Bayly relating to this conference call.
- 4. In his deposition, Mr. Bayly described a meeting involving, inter alia, Tom Davis, Mr. Bayly, Kathy Zrike, Kevin Cox and Mark Devito that took place in Mr. Davis' office regarding the Nigerian barge transaction. Please provide a list of the participants in that meeting, Merrill Lynch's description of the substance of that meeting, and all documents containing any reference to the substance of this meeting, including any communications about this meeting by or between Mr. Davis, Mr. Bayly, Ms. Zrike, Mr. Cox or Mr.
- 5. Did Merrill Lynch ever investigate whether there were communications in 1998 between

Permanent Subcommittee on Investigation
EXHIBIT #269

Mr. G. Kelly Martin August 16, 2002 Page 2

anyone at Merrill Lynch and John Olson regarding (a) Enron's complaints about his analysis of Enron stock; (b) actions Enron had taken in whole or in part as a result of his analysis; (c) the subject matter of the April 18, 1998, memorandum from Rick Gordon and Schuyler Tilney to Herb Allison; (d) the fact that Merrill Lynch was denied participation (or almost denied participation) in a lucrative deal with Enron solely or in part because of his research coverage of Enron; or (e) steps that needed to be taken to make his analysis of Enron stock more supportive of Enron? Did any Merrill Lynch employee superior or equal to Mr. Olson in rank speak or communicate with Mr. Olson regarding any of these issues? If so, please identify the parties to and the substance of those communications?

- 6. What was the substance of the call(s) that took place between Mr. Allison and Kenneth Lay and/or Jeffrey Skilling relating to the April 18, 1998, memorandum from Mr. Gordon and Mr. Tilney to Mr. Allison?
- 7. Why did Mr. Olson stop working for Merrill Lynch in 1998? Was his departure in any way related to the subject matter of the April 18, 1998, memorandum from Mr. Gordon and Mr. Tilney to Mr. Allison? Please provide all documents related to Mr. Olson's termination.
- 8. Did Merrill Lynch seek or obtain a legal opinion from its counsel relating to its role in the LJM2 private placement offering or to the LJM2 private placement offering in general? If so, please provide a copy of that opinion. If not, why not?
- 9. Did anyone at Merrill Lynch contact anyone on the Enron Board of Directors about LJM2? If so, what was discussed or communicated? If not, why not?
- 10. How many Merrill Lynch stock options did Robert Furst receive during the course of his employment at Merrill Lynch, how many did he exercise, when did he exercise them, and what was the value of those options at the time of their exercise?
- 11. Does Merrill Lynch's settlement with the New York State Attorney General preclude Merrill Lynch from having a research analyst make calls similar to those made by Mr. Olson to prospective Enron investors in late April and early June 1998?
- 12. Attached please find a copy of an August 8, 2002, New York Times article that describes a December 1999 energy transaction between Enron and Merrill Lynch. This transaction was not included in the list Merrill Lynch gave the Subcommittee describing Enron/Merrill Lynch transactions. With respect to this issue, why did Merrill Lynch not include this transaction on the list it provided to the Subcommittee? Are there additional transactions between Merrill Lynch and Enron that Merrill Lynch did not include? Please confirm or deny the accuracy of the facts presented in the article and please describe the transaction. Who were the primary people involved in the transaction on behalf of Merrill Lynch and on behalf of Enron?

Mr. G. Kelly Martin August 16, 2002 Page 3

If you have any questions about this request, please contact Tim Henseler at (202) 224-9123 (Senator Levin) or Claire Barnard at (202) 224-3721 (Senator Collins). Thank you for your response.

Sincerely,

Chairman

Musan Collins
Susan Collins
Ranking Member

Enclosure

Permanent Subcommittee on Investigations

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901 - 15th Street, N.W. Washington, D.C. 20005-2301 (202) 371-6000 FAX: (202) 371-6279 www.yerner.com

September 13, 2002

BY HAND

Timothy Hensler, Esq.
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Mr. Hensler:

I write on behalf of Merrill Lynch in response to your oral questions on August 16, 2002 arising out of the Subcommittee staff's July 30, 2002 deposition of Dan Bayly. Merrill Lynch is pleased to provide the requested information, which is set forth below.

1. Who was on the DMCC in December 1999?

In December 1999, certain designated representatives from the following areas within Merrill Lynch were eligible to serve as members of the Debt Markets Commitment Committee (the "DMCC") for the Americas Region (the regional committee that reviewed the barge transaction): Investment Banking; Corporate Credit; Risk Management; Research; Corporate and Institutional Client Group ("CICG") Counsel; and/or Capital Commitments Management. The individuals eligible in December 1999 to act as representatives from each of the above groups in the Americas Region are listed in Exhibit A attached hereto.

We note, however, that the composition of the DMCC group reviewing any given transaction varied depending upon the type of transaction at issue. For example, in addition to the areas identified above, DMCC review of certain transactions also required the presence of representatives from other areas, including the Global Loan Syndicate Group (required for transactions involving loan facilities), Sales Management (required for transactions designated by Capital Commitments Management), or High Yield Syndicate, Municipal Markets Underwriting or Capital Markets (required for transactions in which the sale of certain securities was contemplated). Additionally, Capital Commitments Management, in consultation with the Regional Chief Operating Officer (with notice to CICG Counsel), may have designated additional senior bankers to act as representatives of the Investment Banking Group or Debt Capital Markets Group. The manager of each of the other groups listed in Exhibit A also may have designated additional representatives from their respective areas. Finally, the senior investment banker or debt originator sponsoring the transaction at issue also was required to attend the DMCC meeting.

Page 2

2. How was membership on the DMCC determined?

Please see response to Question #1.

3. How long is a term of membership on the DMCC?

An individual, once so designated, remains eligible for an indefinite period to serve on the DMCC as a representative for his or her respective group within his or her respective geographic region, subject to any relevant material changes in employment status.

4. What were the policies and procedures in 1999 that determined when and why a transaction would be submitted to the DMCC for review?

Generally, the DMCC was responsible for reviewing and approving Merrill Lynch's participation in a number of different types of transactions, including:

- commitments to lead manage or co-manage certain public offerings of preferred stock or debt securities;
- commitments to act as placement agent in connection with certain private placements of preferred stock or debt securities;
- certain restructuring assignments involving the purchase, sale or exchange of certain preferred stock or debt securities;
- the issuance of forward commitments, including "back stops" and "spread locks" for preferred stock or debt securities; and
- involvement as arranger, originator, syndicator of, or participant in, any senior loan facilities, bridge loans or subordinated loan commitments.

Even in circumstances where DMCC approval was not required, any representative listed in Exhibit A could have specifically requested that the DMCC review and approve a particular transaction.

5. Is there a Committee similar to the DMCC that reviews equity investments?

Generally speaking, there is no designated committee within Merrill Lynch established to review proprietary equity investments. The Equity Commitment Committee ("ECC"), for example, generally reviews and approves only Merrill Lynch's participation in equity securities offerings as a

The Honorable Carl Levin, Chairman September 13, 2002

Page 3

global coordinator, lead manager, co-lead manager, co-manager, underwriter, placement agent or

In most instances, Merrill Lynch proprietary investments are reviewed and approved pursuant to an appropriations governance policy that involves (i) the development of an Appropriations Request package, (ii) approval from senior management, and (iii) a technical concurrence review by certain designated representatives from different areas within Merrill Lynch. Because of the potentially lengthy nature of this process, and given time constraints, the barge transaction was instead reviewed by the DMCC, which was occasionally asked to scrutinize proposed non-debt transactions such as equity investments structured with bridge-like features.

Brian Hehir is listed as a copy recipient of the April 18, 1998 memorandum from Rick 6. Gordon and Schuyler Tilney to Herb Allison (MS 06921). What was Mr. Hehir's title and to whom did he report in 1998? Is he still with Merrill Lynch? If so, in what capacity?

In 1998, Mr. Hehir served as a Managing Director in the Equity Capital Markets Origination group, and reported to Michael Ryan. Mr. Hehir remains with Merrill Lynch today, and currently serves as a Managing Director and Vice Chairman of Investment Banking.

Who was the head of research at Merrill Lynch from April to June 1998? Is this 7. person still an employee of Merrill Lynch? If not, does Merrill Lynch know where this person works?

Andrew Melnick and Rosemary Berkery were co-heads of Merrill Lynch's Equity Research department during the relevant time period. Ms. Berkery presently serves as General Counsel to Merrill Lynch & Co. Mr. Melnick is currently employed by Goldman Sachs.

John A. Merrigan

DEBT MARKETS COMMITMENT COMMITTEE AMERICAS REGION

DMCC Chair: Kevin Cox

HIGH GRADE/HIGH YIELD AND GLOBAL LOAN SYNDICATION (Including Municipal Finance, Structured Finance & Preferred Stock)

Senior Bankers	Senior Bankers for Municipal Finance	Syndicate	Comonste Credit	Rick Management	Research	CTCG Common	Capital Commitments
					ı		The state of the s
Christopher Birosak	Matt Deane	Mike Berman	Karen Browning	Laurie O'Loughlin	George Chalhoub	Matt Abrusci	Kevin Cox
Harry Crosby	John Daniel	John Hagerty	Armando Gayoso	Alex Telchberg	Ken Goldberg	Rob Everett	John Swadba
David Dysenchuk	Wendy Franklin	Ed Moriarity	Michael Lurie		Christy Parsons	Tara Flanagan	
Christopher Johnson	Bob Jacobsen	Chris Turner	Robert McDonough		Jon Savas	Lisa Gershowitz	
Jack Lucid	Michael Lexton	David Waill	Cynthia Roney		Mike Plancey	Peter Kelly	
Eugene Miao	Chris Melvin		John Rooney		Clare Schiedermayer	Ben Lau	
Brian O' Callahan	Bob Doherty		Jade Tech	-	Shary Van Winkle	Cara Londin	
Carla Ormsbee	Steve Coma		Andrea Walker	-		Frank Marinaro	
Steve Paras	Frank King		Don Wilson			Juno Mayer	
Michael Senft	Frank McKenna		Paul Wood			Ken Nixon	
Harold Siegel	Eric Rockhold					Jack Shannon	
Chantal Simon	Cody Press					Monica Singh	
Gregg Smart	Tim Romer					John Sprung	
Chris Stout	Eugenio Mendoza			-		Michele Taub	
Jack Yang	Ed Malmstrom					Kathy Zrike	
,	David Johnson						
	Gerald Knorr						
	Joseph Marion						
	Maureen Spivack						
	Mark Paris						
	Barbara Feldman	-				-	
	Samuel Corliss						

INTERNATIONAL EMERGING MARKETS

Syndicate Corpusts Credit Risk Management Research CICG Coursel Keith Hom Rafied Lemos Laurie O'Loughlin Blaine Frantz Pete Keity Renee Pleazo Alex Teichberg Mike Planzey Lesie Psyton-lacobs Confaint Walsel							
Keith Horn Rafael Lemos Laurie O'Loughlin Bleine Frantz Pete Keity Renee Picazo Alex Teichberg Mike Patensy Luselle Payton-Jacobe Christine Marier Contribe Roney Un Savas Christine Walten	Senior Bankers	Syndicate	Corporate Credit	Risk Management	Research	CICG Counsel	Capital Commitments Management
	Maria Herera Udi Margulies Willie Reca	Keith Horn	Rafael Lemos Renee Picazo Cynthia Roney	Laurie O'Loughlin Alex Teichberg	Blaine Frantz Mike Plancey Jon Savas	Pete Kelly Leslie Payton-Jacobs Christine Walsh	Kevin Cox John Swadba

C L I F F O R D C H A N C E

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September 13, 2002

BY HAND

The Honorable Carl Levin, Chairman
The Honorable Susan Collins, Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Sir and Madam:

I write on behalf of Merrill Lynch in response to your letter of August 16, 2002 to G. Kelly Martin posing certain follow-up questions arising out of the Subcommittee's July 30, 2002 hearing concerning Enron Corporation. Merrill Lynch welcomes this opportunity to further assist the Subcommittee in its investigation.

The specific responses to your questions, drawn from the best information available to Merrill Lynch at this time, are set forth below and reflected in the enclosed documents. (As noted in Merrill Lynch's response of April 24, 2002 to Chairman Levin, damage caused by the September 11 terrorist attacks, as well as technical limitations, has significantly delayed Merrill Lynch's ability fully to retrieve archived e-mail communications.) Please do not hesitate to contact me should you require any additional information or materials.

Why did Merrill Lynch redomicile Ebarge, LLC in the Cayman Islands?

When Enron approached Merrill Lynch about the barge transaction in December 1999, the proposed structure of the transaction, as developed by Enron and its advisors, contemplated that the special purpose entity (the "SPE") established to purchase the equity interest in Enron Nigeria Barge Ltd. (ultimately, Ebarge) would be domiciled outside the United States for tax purposes relating to Enron. In closing the transaction, Merrill Lynch did not establish Ebarge as a foreign SPE because there was not enough time before year-end to complete the required paperwork and to conduct the necessary diligence associated with setting up such an entity. With the benefit of additional time, Merrill Lynch later was able to follow Enron's initial proposed structure, and the domicile of Ebarge was transferred from Delaware in February 2000.

CLIFFORD CHANCE US LLP

The Honorable Carl Levin, Chairman September 13, 2002

Page 2

2. Did Ebarge, LLC ever pay any taxes to the United States? If so, how much did it pay? Did it ever pay taxes to any other jurisdiction? If so, how much did it pay and to whom?

In determining any tax obligations, Merrill Lynch treated Ebarge, a limited liability company wholly owned by ML IBK Positions, Inc. (a United States corporation), as a "flow-through entity." Thus, while Ebarge itself would not have directly paid any taxes in the United States or elsewhere, any taxes due on income generated by Ebarge during the period of Merrill Lynch's ownership interest would have been reflected in Merrill Lynch's consolidated corporate income tax returns filed in the United States.

Merrill Lynch, of course, also paid income taxes in the United States in connection with the gain it recognized on the June 2000 sale of its interest in Ebarge.

3. Did Merrill Lynch conduct a review of the conference call involving, inter alia, Daniel Bayly of Merrill Lynch and Andrew Fastow of Enron that occurred in mid-to-late December 1999 relating to the Nigerian barge transaction? If so, please provide the results of that review and all documents relating to the conference call and Merrill Lynch's review of that call. Please include all documents containing communications to or from Mr. Bayly relating to this conference call.

It appears that individuals from Merrill Lynch and Enron held a conference call on December 23, 1999 regarding the barge transaction. The primary speakers on the call were Dan Bayly and Andrew Fastow, and it appears that Schuyler Tilney, Robert Furst, and Jeffrey McMahon may have been passive participants. As Mr. Bayly has explained, he wanted to impress upon Mr. Fastow that Merrill Lynch did not typically make this type of investment, and was doing so primarily as an accommodation to Enron. He also wanted to confirm that Enron would make every effort to facilitate Merrill Lynch's exit from the investment within a reasonable period. Mr. Fastow expressed Enron's appreciation during the call and said that Enron would attempt to locate a third-party investor to replace Merrill Lynch as soon as possible.

To date, we have located only two documents relating to the conference call. Enclosed is a page from Mr. Bayly's personal calendar (bates stamped MS 24407) indicating the scheduled call. We also refer you to the previously produced draft Appropriation Request (bates stamped MS 06508 through MS 06512), which references the anticipated conference call.

4. In his deposition, Mr. Bayly described a meeting involving, inter alia, Tom Davis, Mr. Bayly, Kathy Zrike, Kevin Cox and Mark DeVito that took place in Mr. Davis' office regarding the Nigerian barge transaction. Please provide a list of the participants in that meeting, Merrill Lynch's description of the substance of that meeting, and all documents containing any reference to the substance of this meeting, including any communications about this meeting by or between Mr. Davis, Mr. Bayly, Ms. Zrike, Mr. Cox or Mr. DeVito.

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CLIFFORD CHANCE

The Honorable Carl Levin, Chairman September 13, 2002

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It appears that on December 22, 1999 Tom Davis (then the Executive Vice President in charge of Merrill Lynch's Corporate and Institutional Client Group) met with Mr. Bayly (then global head of Merrill Lynch's Investment Banking Group), Kathy Zrike (counsel to the Investment Banking Group), Kevin Cox (chairman of the Debt Markets Commitment Committee, which had reviewed the barge transaction), and Mark DeVito (then a senior member in the Debt Capital Markets Group). These individuals provided Mr. Davis with their respective views on the barge transaction to assist him in deciding whether to approve Merrill Lynch's equity investment. (Mr. Davis had the authority to approve proprietary equity investments up to \$10 million.) All in attendance at the meeting supported Merrill Lynch's participation in the transaction, and Mr. Davis granted his approval.

The only document located to date relating to this meeting is the previously identified page from Mr. Bayly's personal calendar (enclosed herewith and bates stamped MS 24407), which indicates the scheduled meeting and expected participants.

5. Did Merrill Lynch ever investigate whether there were communications in 1998 between anyone at Merrill Lynch and John Olson regarding (a) Enron's complaints about his analysis of Enron stock; (b) actions Enron had taken in whole or in part as a result of his analysis; (c) the subject matter of the April 18, 1998 memorandum from Rick Gordon and Schuyler Tilney to Herb Allison; (d) the fact that Merrill Lynch was denied participation (or almost denied participation) in a lucrative deal with Enron solely or in part because of his research coverage of Enron; or (e) steps that needed to be taken to make his analysis of Enron stock more supportive of Enron? Did any Merrill Lynch employee superior or equal to Mr. Olson in rank speak or communicate with Mr. Olson regarding any of these issues? If so, please identify the parties to and the substance of those communications?

Mr. Olson has recently stated publicly that no individual at Merrill Lynch ever discussed the April 18, 1998 memorandum with him, and no individual within Merrill Lynch superior or equal to Olson in rank, moreover, specifically recalls any discussions with Olson that related to complaints about his research coverage of Enron. However, a recently retrieved e-mail communication (enclosed herewith and bates stamped MS 24408) seems to indicate that Andrew Melnick, then co-head of Merrill Lynch's equity research department, had a conversation with Olson on or about May 20, 1998, during which they discussed at least in part Enron-related issues.

6. What was the substance of the call(s) that took place between Mr. Allison and Kenneth Lay and/or Jeffrey Skilling relating to the April 18, 1998 memorandum from Mr. Gordon and Mr. Tilney to Mr. Allison?

Mr. Allison recalls only one conversation with an Enron executive, which he believes occurred sometime in April 1998. While Mr. Allison does not recall the substance or specifics of the conversation, he is certain that he did not suggest to Enron that he or anyone else at Merrill Lynch would attempt to influence the research analyst coverage of Enron's stock. Mr. Allison further states that he never did anything to compromise the integrity or independence of Merrill Lynch's research analyst coverage of Enron's stock or the stock of any other company.

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Why did Mr. Olson stop working for Merrill Lynch in 1998? Was his departure in any way related to the subject matter of the April 18, 1998, memorandum from Mr. Gordon and Mr. Tilney to Mr. Allison? Please provide all documents related to Mr. Olson's termination.

As is often the case with personnel decisions, there were a number of considerations underlying Olson's departure. First, as reflected in the enclosed materials (e.g., MS 24409, MS 24467), Merrill Lynch in 1998 reorganized and consolidated its coverage of gas industry companies under a single analyst as part of an ongoing implementation of cost-cutting and efficiency improvement measures. Another consideration informing the decision to release Olson was his consistent failure to achieve recognition in connection with various independent rankings of research analysts. Finally, the decision to terminate Olson's employment was also influenced by critical reviews from colleagues and others. For example, as reflected in the enclosed Termination Authorization Form (bates stamped MS 24411), Olson maintained "consistently poor relationships with the bankers covering his industry," which "undermined" his effectiveness and therefore Merrill Lynch's "competitive position in the marketplace ... to effectively sell and market its products and services."

Enclosed herewith are all additional materials identified to date (bates stamped MS 24410 through MS 24469) relating to Olson's termination.

8. Did Merrill Lynch seek or obtain a legal opinion from its counsel relating to its role in the LJM2 private placement offering or to the LJM2 private placement offering in general? If so, please provide a copy of that opinion. If not, why not?

As is the normal industry practice with respect to such mandates, Merrill Lynch did not engage legal counsel to provide an opinion in connection with its role as the private placement agent for LJM2 Co-Investment, L.P.

9. Did anyone at Merrill Lynch contact anyone on the Enron Board of Directors about LJM2? If so, what was discussed or communicated? If not, why not?

As placement agent, Merrill Lynch conducted due diligence in connection with LJM2 that addressed a number of issues, including, particularly, the concerns presented by Mr. Fastow's dual role as Enron Chief Financial Officer and managing member of LJM2's general partner. In addition to conferring with the law firms of Vinson & Elkins (Enron's outside counsel) and Kirkland & Ellis (LJM2 counsel), Merrill Lynch consulted with senior members of Enron's management, including Jeffrey Skilling, who at the time was both Chief Operating Officer and a member of Enron's Board of Directors.

In the course of this due diligence, Merrill Lynch was informed that Enron's Board had reviewed and approved Mr. Fastow's dual role (and, in so doing, waived the applicable code of conduct). Merrill Lynch also participated in separate telephone calls with Enron's Chief Accounting Officer Richard Causey and Mr. Skilling to confirm that they understood the structure of LJM2 and Fastow's proposed role. It was apparent to Merrill Lynch that they had spent a great deal of time considering

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LJM2 matters, and were comfortable with Mr. Fastow's dual role. As memorialized in a previously produced Merrill Lynch memorandum (bates stamped MS 14783 through MS 14784), Mr. Skilling told Merrill Lynch the following reasons for Enron's comfort level: (1) Fastow had no control over asset sale decisions; (2) Causey would review all proposed transactions with LJM2; and (3) the Audit Committee of Enron's Board would receive and review LJM2's financial statements.

10. How many Merrill Lynch stock options did Robert Furst receive during the course of his employment at Merrill Lynch, how many did he exercise, when did he exercise them, and what was the value of those options at the time of their exercise?

Upon joining Merrill Lynch in July 1999, Mr. Furst received the right to 5,124 units payable in Merrill Lynch stock upon vesting (known as "Restricted Units") as partial compensation for forfeited income from his former employer. Based on the price of Merrill Lynch's stock at the time, the Restricted Units had a value of approximately \$200,000. The Units do not fully vest until January 31, 2004.

For performance year 1999, Mr. Furst received stock-based compensation valued at approximately \$390,000, including 5,954 Restricted Units valued at approximately \$235,000 and 15,870 stock options (with a strike price of \$43.78) valued at approximately \$155,000. The Restricted Units do not fully vest until January 31, 2003. Mr. Furst exercised 3,174 of the options in May 2001 when the stock price was \$68.04 (for a pre-tax gain of approximately \$77,000). Of the remaining options, 3,174 are exercisable but "out of the money," and 9,522 are not yet exercisable.

For performance year 2000, Mr. Furst's stock-based compensation was valued at approximately \$400,000, including 2,579 Restricted Units valued at approximately \$200,000 and 10,315 stock options (with a strike price of \$77.56) valued at approximately \$200,000. The Restricted Units do not fully vest until January 31, 2004. While the options fully vested on August 1, 2001, Mr. Furst has not exercised any of them, as they are all "out of the money."

Mr. Furst did not receive any stock-based compensation for 2001.

11. Does Merrill Lynch's settlement with the New York State Attorney General preclude Merrill Lynch from having a research analyst make calls similar to those made by Mr. Olson to prospective Enron investors in late April and early June 1998?

No. While the May 21, 2002 agreement with the New York State Attorney General established a new industry standard for research independence and objectivity, it does not preclude research analysts from providing information concerning securities offerings to prospective investors, a common industry practice.

12. Attached please find a copy of an August 8, 2002, New York Times article that describes a December 1999 energy transaction between Enron and Merrill Lynch. This transaction was not included in the list Merrill Lynch gave the Subcommittee describing Enron/Merrill Lynch transactions. With respect to this issue, why did

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Merrill Lynch not include this transaction on the list it provided to the Subcommittee? Are there additional transactions between Merrill Lynch and Enron that Merrill Lynch did not include? Please confirm or deny the accuracy of the facts presented in the article and please describe the transaction. Who were the primary people involved in the transaction on behalf of Merrill Lynch and on behalf of Enron?

The fact that Merrill Lynch had engaged in energy derivatives trades with Enron Power Marketing, Inc. ("EPMI") was disclosed to the Subcommittee. The list that Merrill Lynch provided to the Subcommittee in response to Chairman Levin's April 10, 2002 letter to David Komansky set forth in a document entitled "Exhibit A" specific advisory, capital markets, credit facility, and proprietary transactions. The list also set forth a general description of the various types of derivatives trades engaged in with Enron-related entities, including specifically "energy derivative trades" with EPMI. The list was provided in response to the request in the second paragraph of the April 10 letter and, as noted in Merrill Lynch's April 24 letter response, in accordance with discussions with the Subcommittee staff that clarified the scope of the overall requests.

Merrill Lynch conducted a substantial energy trading business from mid-1998 until the business was sold in January 2001. One of the counterparties in that business – and also a competitor of Merrill Lynch – was Enron. The derivatives trades that are the subject of the New York Times article you referenced were a part of that business.

The facts relating to the transactions are as follows. In early December 1999, Clifford Baxter (then the Chief Executive Officer of Enron North America) proposed to Dan Gordon (then head of Merrill Lynch's Global Power Trading Group) that EPMI and Merrill Lynch enter into two derivatives transactions. Under the first transaction, EPMI would purchase from Merrill Lynch daily call options that gave EPMI the right to obtain from Merrill Lynch the difference in dollars between (i) the market price of energy in the future as reflected in a designated index, and (ii) strike prices set forth in an agreement (financially settled call options). Under the second transaction, Merrill Lynch would buy from EPMI daily call options that gave Merrill Lynch the right to obtain the delivery of power from EPMI at contractually specified prices.

Mr. Gordon reviewed the proposed transactions and, with the assistance of Merrill Lynch's risk management team, attempted to assess and quantify the risks to which Merrill Lynch would be exposed in connection with them. They concluded that the trading risks were significant.

Mr. Gordon's conclusion was confirmed by his superior, Jeff Kronthal, then the head of Merrill Lynch's Global Derivatives Group. Mr. Kronthal believed that in addition to the trading risks identified by Mr. Gordon, Merrill Lynch faced significant operational risks should EPMI decide to satisfy its obligations through delivery of the output of Enron's power facilities. Messrs. Gordon and Kronthal concluded that Merrill Lynch would need to charge a relatively large premium to compensate for these trading and operational risks. (Eventually, Enron agreed to structure the trades, consistent with normal market practice, such that there was a \$17 million net present value difference between the options premiums to be paid by the respective parties over the course of the trades in Merrill Lynch's favor.)

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Merrill Lynch also was sensitive to the fact that the proposed trades were to take place just prior to year-end and would provide Enron with certain accounting benefits. Specifically, Mr. Baxter explained that Arthur Andersen had determined that Enron could continue to maintain off-balance sheet treatment of certain power facilities by selling the output of those facilities to Merrill Lynch through the call options. Merrill Lynch also understood that Enron would book additional revenue as a result of the trades.

Merrill Lynch engaged in an extensive review and approval process designed to ensure that the transactions (1) were legitimate "at-risk" transactions, (2) were fully considered by senior Merrill Lynch personnel in every key area, and (3) were known to and approved by senior Enron management and Arthur Andersen.

After Messrs. Gordon and Kronthal consulted with the Merrill Lynch investment bankers primarily responsible for the Enron relationship (Rob Furst and Schuyler Tilney), the group agreed that firm policy required that the proposed trades be presented to Merrill Lynch's Special Transactions Review Committee (the "STRC"), which was responsible for assessing and approving certain types of transactions that may yield a fee to Merrill Lynch of more than \$5 million.

In advance of the STRC meeting, Mr. Gordon, in consultation with the Merrill Lynch lawyers covering the Power Trading Group, prepared a memorandum for the STRC summarizing the trades and the various issues presented. Specifically, the memorandum indicated (1) the year-end nature of the transactions, (2) Arthur Andersen's approval of the accounting treatment, and (3) the risks to Merrill Lynch.

Several days after receiving the memorandum, the STRC met to review the proposed trades. Attendees included Robert McCann (STRC Chairman and Chief Operating Officer of Merrill Lynch's Corporate and Institutional Group) and John McDermott (STRC Secretary and Merrill Lynch's Chief Compliance Officer for the Corporate and Institutional Group), as well as representatives from the legal, credit, risk management and business units.

The STRC discussed the nature of the trades and focused on the proposed accounting benefits to Enron. The committee ultimately determined that it would be prudent to proceed with the trades only after receiving assurances (1) that senior Enron managers were aware of the transactions (as well as the attendant risks and costs) and (2) that Arthur Andersen approved of the proposed accounting treatment.

The STRC obtained these assurances by speaking directly with Richard Causey, Enron's Chief Accounting Officer. Mr. Causey assured the STRC that Enron senior management was fully cognizant of the trades and had consulted extensively with Arthur Andersen regarding the accounting treatment. Impressed with Causey's familiarity with the transactions and his openness about the benefits to Enron, the STRC approved the trades, subject to receiving a letter from Mr. Causey confirming his oral representations. Shortly after the meeting, Mr. Causey sent Merrill Lynch a letter representing that "Enron has reviewed the Transactions with its outside auditors Arthur Andersen and Arthur Andersen concurs with Enron's proposed accounting for the Transactions."

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In February or March 2000, Mr. Baxter contacted Mr. Gordon to see if he would be willing to unwind the trades. Mr. Gordon said that he was willing to do so, but only if EPMI then paid a significant portion of the differential to Merrill Lynch that was embedded in the options premiums over the life of the transactions. Mr. Baxter declined the offer. By June 2000, Merrill Lynch's mark-to-market profit on the trades had increased by more than \$2 million, and Mr. Baxter once again contacted Mr. Gordon to ask if he would terminate the transactions. This time, Messrs. Gordon and Baxter were able to reach agreement on a termination differential of \$8.5 million.

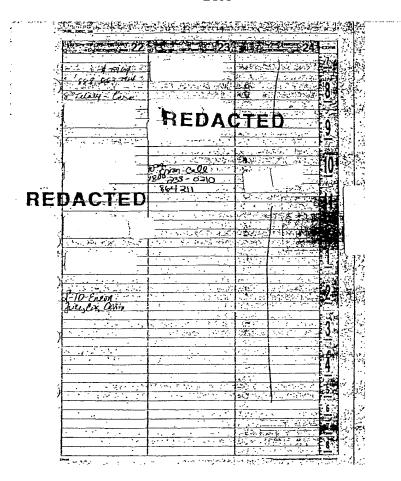
Finally, Merrill Lynch believes there was nothing improper about the transactions, nor was there any pre-arrangement to cancel them. As to the latter issue, the negotiations that occurred in the first quarter of 2000 – when no agreement could be reached concerning termination – confirm that there was no such pre-arrangement. To the extent that anything appearing in the New York Times article is inconsistent with the facts set forth in this letter, Merrill Lynch stands by the statements contained herein.

Respectfully,

James B. Weidner

ATT brille

enclosures



Unknown

From: Sent: To: Subject: Olson, John (RSCH-HOU) Friday, May 22, 1998 3:13 PM Melnick, Andrew (RSCH) Last Wednesday's Events

Andy, I was so stunned at your decision of Wednesday that I still feel bewildered at exactly where I have transgressed so badly in this Enron situation. I have taken the liberty of asking Ken Lay, Chairman and CEO of Enron Corporation to call you for no other reason but to tell you that I have made no "snide" remarks about Enron and/or its management team—recently or ever. Any reading of my last dozen reports on Enron will show you we have either been neutral or occasionally positive on the stock. We were right. ENE delivered a 15.5% average annual total return for the past five years. The market delivered 20.8%: and our recommendations delivered 22% to 40% annually (e.g. Williams). This has been an entirely professional relationship. I do not know where you are getting the information to have made this judgement about me: but I can only regret it.

As to my middle-of-the-road marketing rankings, I would urge you to remember that gas companies are not computer companies; and unfortunately they do not have the high profiles that we all want. When you find my replacement, it would be good of you to keep this in perspective.

One final problem. On the prior Friday, I had gone out and closed on my wife's dream house, never expecting the turn of events that came on last Wednesday. Had I known this was coming, I never would have closed on this house. We will be forced to put it back on the market immediately: and we will be lucky to sell it at what we paid for it.

The brokerage commission alone ran \$103,500—which is what I will be out when the house sells. Could you be good enough to consider whether you can raise my exil settlement from \$400,000 to \$500,000 so as to mitigate this calamity? Obviously, my wife and I would be very greatful. Otherwise, I will be in touch with Linda G. next week. Thanks and regards, John Olson

Merrill Lynch

Memo

To: U.S. Fundamental Equity Research, Sales, Trading and Investment Banking

From: Stanley Rubin and Margo Vignola

Date: 09/05/2030

Re: Donato Eassey

We are pleased to announce that Donato Eassey our number 2 ranked Institutional Investor analyst (#1 in Greenwich) in Natural Gas Distributors will be assuming full coverage of the distributors, pipelines and integrated companies. In this endeavor, Donato will manage a team of analysts, including Rebecca Followill, Molly Ladd and Stephanie Joe. Donato and his team will continue to be based in Houston. John Olson who provided coverage on the pipelines and major integrateds has left Merill Lynch to join another company in the region. Donato will resume coverage of John Olson's companies in a short amount of time. We wish all the best in these new endeavors.

interonice Memorandum

To:

Margot Leffler Human Resources, ML&Co

•

Susan Preli Global Sections Research

-...

et 5-15-98

Merrill Lynch

RE: Attached TAF

Hi, Margot.

Linda asked me to put together the attached TAF because Andy is going to Houston on Tuesday and wants to take the A&R with him. I apologize for the last minute request...

John will be 56 in July; he currently earns \$175,000. Under the policy, he is entitled to 9 weeks' basic severance, or 18 with signature. In addition, Research wishes him to receive a one-time only payment of \$200,000 (representing 50% of his 1997 bonus). He received a stock grant of \$125,000 in 1997, \$100,000 in 1996, \$80,000 in 1995 and \$60,000 in 1994.

Do you think we can get this done in time?

(REVISED) TERMINATION AUTHORIZATION FORM (Jan-98) 06871

JOHN OLSON	1ERMINATION	AUTHORIZATION 96871	FURM (Jan-98)	98C
Employee Name		Employee Number		Initiative Number
9/28/92	6/26/98	8/31/98	10/30/98	1 // // //
Employment Date	Termination Date	SBC Start Date	Standard Policy SBC	1/1/99 Transition Policy SBC
	(Proposed)	(Proposed)	End Date (Proposed)	End Date (Proposed)
GLOBAL SECURITIES	RESEARCH	SR. SPECIALIST/FVP		98
Group/Department REASON FOR TERMIN	NATERIU .	Position Title		Grade/Band
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MS 24411

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Agreement and Release: Human Resources Representative's Signature

MS 24412

TERMINATION VERIFICATION

Merrill Lynch

Registration Department -

Office of General Counsel

100 Church Street 12th Floor New York, New York 10080-6512 212 602-8475 FAX 212 602-6945

September 9, 1998

John E. Olson 3448 Overbrook Houston TX 77027

Dear Mr Olson:

Enclosed please find a copy of Form U5 which has been submitted to the appropriate regulatory agencies on your behalf.

Should you have any questions regarding this form, kindly call the contact person indicated on the bottom of this form.

Sincerely,

Michael Halecky

Manager

MH/jh Enc.

FUHM U-5 UNIFORM TERMINATION NOTICE FOR SECURITIES INDUSTRY REGISTRATION Only Items 13-15 may be amended. To amend, complete only Items 1-4 and the Item(s) being amended.

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Complete Items 13-15 and signature block on reverse side.
Incomplete forms will be returned.

MS 24467

Rev Form U-5 (11/97)

FORM U-5 UNIFORM TERMINATION NOTICE FOR SECURITIES INDUSTRY REGISTRATION

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136	(1) la con	nection with events that occu	rred while the individual was er	nployed or ass	sociated with your firm, was the individu	ai:			
	 (a) named as a responder/defendant in an investment-related, consumer initiated arbitration or civil higation which alleged that the individual was involved in one or more sales practice violations and which; 								
	- 1) is still pending, or: ii) resulted in an arbitration (iii) was settled for an amoun	award or civil judgment against t of \$10,000 or more,	the individual,	regardless of amount, or,		-		
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DANIEL K, AKAKA, HAWAII
RICHARD J, DURBIN, ILLINOIS
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DYCE A. RECHTSCHAFFEN, STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, DC 20510-6250

October 18, 2002

John Merrigan, Esq. Piper Rudnick LLP 901 15th Street, N.W. Washington, DC 20005-2301

Dear Mr. Merrigan:

We are in receipt of your letter dated September 13, 2002, written on behalf of your client Merrill Lynch. Based upon the responses you have provided, the Subcommittee has some additional questions we request your client respond to in writing by November 1, 2002. If Merrill Lynch possesses documents or other materials relevant to the issues raised below that it has not already produced, please provide them to the Subcommittee with your responses.

- 1. Please list the individuals on the Debt Markets Capital Committee (DMCC) that reviewed the proposed Nigerian Barge transaction between Enron and Merrill Lynch. Please describe how and when the DMCC convened to consider the proposed Nigerian barge transaction, and provide any minutes, notes or other documents relating to or resulting from those meetings or discussions. Please describe what was discussed at each meeting or discussion that addressed the Nigerian barge transaction. Please identify all individuals who attended and/or participated in those meetings or discussions (regardless of whether the individual was on the DMCC or not). Has Merrill Lynch conducted a search of the records, files or computers of each of these individuals to determine if they possess documents responsive to the Subcommittee subpoena? If so, please describe those efforts. Have all such responsive documents been produced?
- Attached is a Merrill Lynch appropriations document relating to the Nigerian barge transaction between Merrill Lynch and Enron, Bates-stamped MS 05330-34. In whose records, files or computer was this document located? If a similar appropriations document was found in the records, files or computers of more than one individual, please list these individuals and produce these documents. Please identify the handwriting contained on Bates number MS 05332.
- In response to a question relating to whether or not there exists a committee similar to the DMCC that reviews equity investments, you note in your September 13, 2002 letter that:

Because of the potentially lengthy nature of [an appropriations governance] process, and given time constraints, the barge transaction was reviewed by the

John Merrigan, Esq. October 18, 2002 Page Two

DMCC, which was occasionally asked to scrutinize proposed non-debt transactions such as equity investments structured with bridge-like features.

How many other times in 1998, 1999, and 2000 did the DMCC scrutinize "proposed non-debt transactions"? What were the "bridge-like features" of the Nigerian barge transaction you mention in your letter? How many other times in 1998, 1999, and 2000 did the DMCC scrutinize equity investments structured with "bridge-like features"?

If you have any questions about these requests, please contact Tim Henseler at (202) 224-9123 (Senator Levin) or Claire Barnard at (202) 224-3721 (Senator Collins). Thank you for your responses.

Sincerely,

Susan Collins, Ranking Republican

Carl Levin, Chairman

Carl Lovin

Permanent Subcommittee on Investigations

CL:SC:th Enclosure

APPROFRIATION REQUEST-COVER PAGE

(\$ in Thousands)

CICG Management Unit:

Project Name:

Enron Nigerian Barge

Group:

Equity
Financial Commitment: \$7 Million

Project Start / Finish: Needs to Close by 12/31/99 -Takeout by 6/30/00

IBK

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Katings

B-, B3

(Moody's/S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Feet:

Proposed \$250,000 plus 15% per annum or a fiat 22.5%

return per annum.

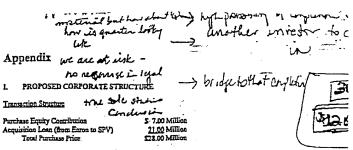
ML Research Coverage:

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase S7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of eash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of eash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will 'acilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

SMerrill Lync	h				
APPROPRIATION REQUEST APPROVALS					
Management Unit:	CICG	Project Name:	Enron Nige	rian Barge Equity	
		Financial Commit	ment	\$7 million	
SPONSOR:					
Originator.	Rob Furst				
Mgmt. Unit Controller:	***************************************	_			
Mgmt. Unit Head:	***************************************	_			
Group Finance Director	-	····			
Group EVP:		_			
Other Reviews		Corporate Approv	ela		
Debt Markets Capital Committee:	Group/Date	_ Chief Financial Office	ec	· · · · · · · · · · · · · · · · · · ·	
Peer Project Review:	Date	Executive Committee	e:	-	
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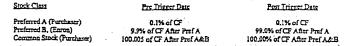


Basis: 25% Internal Rate of Return on invested equity for Purchaster,
Acquisition Loan Terms: 12% Interest Rate, 26 Month Term, Amortization to be Agreed
Loan secured by Purchaster's interest in the Burge Project Only

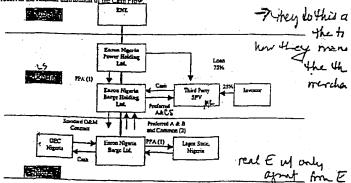
Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Freferred A. Sa. Shares and the Common "Shares. Enrou will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cath Flow rights of each thareholder class after the previous class abareholder has received their pertentage share of the Cath Flow.

Economic Interest (Percent of Cash Flow ("CF")



Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cath Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cath Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cath Flow.



TIME LINE

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- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.
- IL. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US 2000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
· Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9.123	\$13.367	\$13,706	\$3,410	539.691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Earon to provide to the Investor monthly distributions of net cash flow, and to have an Earon affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than \$40 million in investment braking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Azurin's, Enron's international water utility subsidiary, IPO (\$700 million)

 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.

 Currently working on several buy side advisory assignments

 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)
- MS 05333

Currently working with the CFO to raise a \$500 million private equity fund (LJM2)

Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)

The Company is actively exploring power opportunities in continental Europe

Company Overview

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Earms is expenized as a holding company with four energy-related operating subdidieries (Earon North America, Earon Gas Fipellines, Enron Energy Services and Portland General) a tolecommunications robatidisry (Earon Communications) and an international water company (Azuria). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enror (Sas Pipelines, which owns and operates all of Earon's feedrally regulated internation and gas pipelines, and Fortunal General Enror occurity monotones to of Fortunal General which should close in the next year), an electric distribution, unaumission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enror's largest business at measured by operating profit and provides commodity size (attural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility currents in the U.S. and immunificially. Enror's newest energy business it in retail energy services business, comprised of Enron Energy Services, which provides total energy occurred so business to his record include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest butinesses, Enron Communications and Azariz, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long had fiber optic network that will offer breathend application services over an Internet Promocal network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth expandy on fiber systems. Azuriz is an \$150 million publicly traded international water company (10% commilled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatization, providing water and wastewater related services to municipal and hadrarial water markets and developing and managing water resources.

OSEPH I. LIEBERMAN, CONNECTICUT, CHAIRMAN

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OYCE A RECHTSCHAFFEN, STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON GOVERNMENTAL AFFAIRS WASHINGTON, DC 20510-6250

October 18, 2002

Mr. G. Kelly Martin Senior Vice President Merrill Lynch, Pierce, Fenner & Smith, Inc. 4 World Financial Center 250 Vesey Street, 32nd Floor New York, NY 10080

Dear Mr. Martin:

We are in receipt of the letter dated September 13, 2002, written by Mr. James Weidner of Clifford Chance US LLP on behalf of Merrill Lynch. Based upon the responses Merrill Lynch has provided, the Subcommittee has the following additional questions which we would appreciate Merrill Lynch responding to in writing by November 1, 2002. As before, if Merrill Lynch possesses documents or other materials relevant to the issues raised below that it has not already produced, please provide them to the Subcommittee by the same date.

- 1. Please explain how Ebarge, LLC (Ebarge), a wholly owned Merrill Lynch special purpose entity, could generate tax benefits to Enron by being redomiciled in the Cayman Islands. If Merrill Lynch was the sole owner of Ebarge, what tax benefits could accrue to Enron as a result of Merrill Lynch's redomiciling Ebarge in the Cayman Islands? What tax benefits did accrue to Enron as a result of Merrill Lynch's redomiciling Ebarge in the Cayman Islands? Who at Enron communicated to Merrill Lynch the tax benefits Enron sought to achieve by redomiciling Ebarge in the Cayman Islands, and to whom at Merrill Lynch were those sought-after Enron tax benefits conveyed? Please provide copies of any documents that explain or relate to the tax benefits Enron sought from Merrill Lynch's redomiciling Ebarge in the Cayman Islands.
- What benefits (tax or otherwise) did Merrill Lynch receive by redomiciling Ebarge in the Cayman Islands? Please identify and quantify all costs and any lost benefits that accrued to Merrill Lynch as a result of redomiciling Ebarge in the Cayman Islands.
- 3. Who at Merrill Lynch was involved in redomiciling Ebarge, and who at Merrill Lynch made the decision to redomicile Ebarge? Why did Merrill Lynch agree to redomicile Ebarge? Why were the Cayman Islands selected?
- 4. Did Ebarge generate any income during the period of Merrill Lynch's ownership? If so, how much did it generate? Was any of this taxable income, and if so, how much?

Mr. G. Kelly Martin October 18, 2002 Page Two

- 5. In your response to question 5 of our August 16, 2002 letter, you stated that "no individual within Merrill Lynch superior or equal to [Mr. John] Olson in rank... specifically recalls any discussion with Olson that related to complaints about his research coverage of Enron."
 - (a) Does any individual who currently works for Merrill Lynch generally recall any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.
 - (b) Do any individuals who worked for Merrill Lynch in 1998 recall (generally or specifically) any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.
 - (c) Did Merrill Lynch at any time discuss any of the issues listed in question 5 of our August 16, 2002 letter with Andrew Melnick or any other former Merrill Lynch employee who was employed at Merrill Lynch in 1998? If so, please identify these individuals and provide a summary of each of those communications.
- 6. Your response to question 6 of our August 16, 2002 letter states that "Mr. Allison recalls only one conversation with an Enron executive, which he believes occurred sometime in April 1998." Please identify this executive and why Mr. Allison was speaking with this executive. Did Mr. Allison initiate the conversation? Was the conversation in person, by telephone, or by some other means? Does Mr. Allison recall anything about the call? If so, what does he recall?
- Please respond "yes" or "no" to the following question: was Mr. Olson's departure from
 Merrill Lynch in any way related to the subject matter of the April 18, 1998 memorandum
 from Rick Gordon and Schuyler Tilney to Herb Allison? If the answer is "yes," please
 explain how it was related.

Mr. G. Kelly Martin October 18, 2002 Page Three

If you have any questions about these requests, please contact Tim Henseler at (202) 224-9123 (Senator Levin) or Claire Barnard at (202) 224-3721 (Senator Collins). Thank you for your response.

Sincerely,

Susan Collins, Ranking Republican Carl Levin,
Permanent Subcommittee on Investigations

Carl Levin, Chairman

CL:SC:th

Piper Rudnick

November 8, 2002

BY HAND

The Honorable Carl Levin, Chairman
The Honorable Susan Collins, Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Sir and Madam:

I write on behalf of Merrill Lynch in response to your October 18, 2002 letter containing additional questions arising out of my letter to you of September 13, 2002. Merrill Lynch is pleased to provide the requested information, which is set forth below and in the enclosed documents. If Merrill Lynch can be of any further assistance to the Subcommittee in its investigation relating to Enron Corporation, please do not hesitate to contact me.

Please list the individuals on the Debt Markets Capital Committee (DMCC) that reviewed the proposed Nigerian Barge transaction between Enron and Merrill Lynch. Please describe how and when the DMCC convened to consider the proposed Nigerian barge transaction, and provide any minutes, notes or other documents relating to or resulting from those meetings or discussions. Please describe what was discussed at each meeting or discussion that addressed the Nigerian barge transaction. Please identify all individuals who attended and/or participated in those meetings or discussions (regardless of whether the individual was on the DMCC or not). Has Merrill Lynch conducted a search of the records, files or computers of each of these individuals to determine if they possess documents responsive to the Subcommittee subpoena? If so, please describe those efforts. Have all such responsive documents been produced?

Members of the Debt Markets Commitment Committee (the "DMCC") spoke on or about December 22, 1999 to discuss the proposed transaction. Likely participants included James Brown, Kevin Cox, Robert Furst, Schuyler Tilney, Paul Wood, and Katherine Zrike. Others may have participated in person or by phone. The meeting participants engaged in an open and frank discussion about the transaction, the fact that Arthur Andersen had approved Enron's proposed accounting treatment, the immaterial size of the transaction relative to Enron's revenues, and the financial risks to Merrill Lynch presented by the transaction. The group also specifically addressed concerns regarding the propriety of the transaction. Since the DMCC did not have the authority to approve proprietary investments, no vote was taken. However, members of the DMCC had no objection to proceeding with the transaction, subject to its being considered for approval by Thomas Davis.

To date, Merrill Lynch has engaged in extensive efforts to collect all materials relating to Enron that may be responsive to the Subcommittee's subpoena or to any of the numerous inquiries from other government agencies, including requests for and review of all related materials from each of the

NYA 568837.1

The Honorable Carl Levin The Honorable Susan Collins November 8, 2002 Page 2

above-referenced individuals. Additionally, Merrill Lynch continues to retrieve and review archived e-mail communications.

Enclosed herewith are additional materials (bates stamped MS 24572 through MS 24577) responsive to the Subcommittee's request. With this letter and its enclosures, Merrill Lynch has now produced all non-privileged information and materials identified to date relating to the DMCC's review of the barge transaction.

2. Attached is a Merrill Lynch appropriations document relating to the Nigerian barge transaction between Merrill Lynch and Enron, Bates-stamped MS 05330-34. In whose records, files or computer was this document located? If a similar appropriations document was found in the records, files or computers of more than one individual, please list these individuals and produce these documents. Please identify the handwriting contained on Bates number MS 05332.

The document in question was located in the files of Katherine Zrike, who also made the notations located on the page bearing the bates number MS 05332.

Additional copies of the draft Appropriation Request were located within the common electronic database for Merrill Lynch's Houston office, and also in the files of James Brown, Michael DeBellis, Christopher Vendome, Gary Dolan, and Joseph Valenti. All such copies are enclosed herewith and bates stamped MS 24578 through MS 24625.

 In response to a question relating to whether or not there exists a committee similar to the DMCC that reviews equity investments, you note in your September 13, 2002 letter that:

Because of the potentially lengthy nature of [an appropriations governance] process, and given time constraints, the barge transaction was reviewed by the DMCC, which was occasionally asked to scrutinize proposed non-debt transactions such as equity investments structured with bridge-like features.

How many other times in 1998, 1999, and 2000 did the DMCC scrutinize "proposed non-debt transactions"? What were the "bridge-like features" of the Nigerian barge transaction you mention in your letter? How many other times in 1998, 1999, and 2000 did the DMCC scrutinize equity investments structured with "bridge-like features"?

The DMCC is a highly respected committee within Merrill Lynch composed of professionals with wide-ranging expertise in credit, banking, legal, and risk management issues, and, as noted, the DMCC on occasion was asked to review complex proposed non-debt transactions technically outside

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The Honorable Carl Levin The Honorable Susan Collins November 8, 2002

Page 3

of the committee's province. Given the <u>ad hoc</u> nature of such reviews, however, the DMCC does not regularly keep records of transactions that it may comment on but does not approve. Thus, while the committee reviewed other non-debt transactions (including those that may have had "bridge-like" features) the exact number of such transactions cannot be determined.

Regarding the "bridge-like" nature of the barge transaction, clients occasionally ask Merrill Lynch to serve as a short-term investor to "bridge" projects or ventures through the purchase of equity. Enron requested that Merrill Lynch make such a short-term equity investment through the barge transaction.

Respectfully,

John Meury-John Merrigan

enclosures

NYA 568837.1

From: Sent: To:

Bynum, Brad (IBK-DAL)
Wednesday, December 22, 1959 10:20 AM
DeVito, Mark (CICG - CAPMKTS); Brown, James (CICG - CAPMKTS); Fuhs, William
(CICG - CAPMKTS)
DMCC for Enron Project

Subject:



December 22 1999 MEMOZ.doc

Brad Bynum
Associate
Investment Banking
200 Crescent Courl, Suite 550
Dallas, Texas 75201

214-484-5320

≥ 214-484-5399

≥ bbynum@exchange.ml.com

MS 24572

ITTOTOTION INCIDIOTATIQUITI

To: Debt Markets Commitment Committee

From: Project Finance and Lease Group: James
Brown
Debt Capital Markets: Mark Devito
ML Houston: Schuyler Tilney
ML Dallas: Rob Furst, Brad Bynum

Tcl: Leveraged Finance Group: x8427 Debt Capital Markets: x4908 ML Houston: 713-759-2530 ML Dallas: 214-849-5350, x5320



Date: December 22, 1999

Subject: \$7.0 MILLION EQUITY BRIDGE COMMITMENT

L SUMMARY AND TRANSACTION OVERVIEW

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. The transaction must close by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they believe our hold will be for less than six months. The investment would have a 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is \$39 million. Enron wants to monetize the first 3 years of cash flow for \$28MM. They will do this by establishing a U.S. special purpose vehicle. The special purpose vehicle will be capitalized by our \$7MM investment and a \$21MM loan from Enron Corp. Enron has a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment.

Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions as adding significant value. Enron has generated a fee to ML in excess of \$40 MM in 1999.

IL PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price

\$ 7.00 Million 21.00 Million \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

MS 24573

pran

interoffice iviernorangum

Debt Markets Commitment Committee

From: Project Finance and Lease Group: James
Brown
Debt Capital Markets: Mark Devito
ML Houston: Schuyler Tilney
ML Dallas: Rob Furst, Brad Bynum

Leveraged Finance Group: x8427 Debt Capital Markets: x4908 ML Houston: 713-759-2530 ML Dallas: 214-849-5350, x5320

Merrill Lynch

Date: December 22, 1999

Subject: \$7.0 MILLION EQUITY BRIDGE COMMITMENT

TRANSACTION SUMMARY

Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co.

Timing:

Closing by year end.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Leo J. Kelser

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class

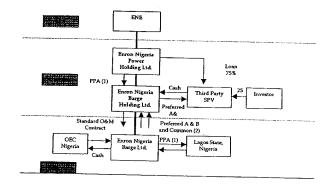
Pre Trigger Date

Post Trigger Date

Preferred A (Purchaser) Preferred B, (Enron) Common Stock (Purchaser)

0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B 0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99,0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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III. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

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V. PRELIMINARY INFORMATION MEMORANDUM

Attached

APPROPRIATION REQUEST COVER PAGE (\$ in Thousands) (CG Project Name:

Management Unit:

CICG

Project Name: Erron Nigerian Barge
Equity
Financial Commitment: \$ 7 Million

Group: Project Start / Finish:

Needs to Close by 12/31/99 – Takeout by 6/30/00

EXECUTIVE SUMMARY Eatily:

Special Purpose Vehicle

Facility: Request

\$7.0 Million Equity 57.0 Million

B-, B3

Expected Ratings (Moody's/S&P): Maturity:

Less than six months

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Euron Corp.

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

NA

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum. $_{\rm col}$.

Lea J. Kelser

ML Research Coverage:

Jeff McMahoa, EVP and Treasurer of Enron Corp, has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp, to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be339 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$238/M. They propose to do this by having ML establish a U.S. special purpose entity (the \$95°), owned by Merrill Lynch. The \$PE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Euron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Euron will have a total investment of \$46 MM in the project. Euron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will 'Galilatte our exit from the transaction with hird party investors. Dan Bayly will have a conference call with senior management of Euron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

Merrill Lynch APPROPRIATION REQUEST APPROVALS				
lanagement Unit:	CICG	Project Name:	Enron Nig	erian Barge Equity
		Financial Commi	itment:	\$7 million
PONSOR:		39		
riginator:	Rob Furst	-		
gmt. Unil Controller:	1			•
ynt. Unit Head:			-	
roup Finance Director:			•	,
OUP EVP:				
ther Reviews		Corporate Appro	ovals	
ebt Markets Capital ommittee;		Chief Financial Of	ficer:	
	Group/Date			
eer Project Review:	Date	Executive Commit	tee:	
		Audit and Finance Committee:	<u>, , , , , , , , , , , , , , , , , , , </u>	
ale Approved:	·	Other:		

Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loss (from Enron to SPV)

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Parchaset will purchase the Preferred A Shares and the Commons "Shares. Enrow will own the Preferred B Shares. The nammay below indicates the contonnic interests before and after the Trigger Date. In each case, the able indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their purcentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

 Stock Class
 Pre Triager Date
 Post Triager Date

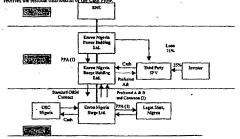
 Preferred A (Purchasser)
 0.1% of CF
 0.1% of CF

 Preferred B, (Euron)
 9.9% of CF After Pref A
 9.9% of CF After Pref A&B

 Common Stock (Purchasser)
 100.005 of CF After Pref A&B
 100.005 of CF After Pref A&B

Before the Trigger Date, the Porchaser is espected to receive approximately 50% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 90% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.

Ext.



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- (1) PPA is between Euron Nigeria Power Holding Ltd and the Lagor State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Euron Nigeria Burge Holding Ltd. Which in toro assigns the rights to Euron Nigeria Burge Ltd.
- (2) Enron Nigerias Barge Ltd. A&B Preferred and Common Sharer are issued to Enron Barge Holding Ltd.
- (3) Preferred A Shares and Common are sold from Earca Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.
- II. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges		\$25,000
Barge Upgrades and Onshore Cost		15,800
Total EPC		40,300
Mobilization	5	1,014
Development Costs		1,500
Working capital and Spares		2,119
Contingency .		[8]
Total Costs		\$45,614

Projectio

cation of 90% of Net	Cash Flow (US \$0)	99)		
Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,123	\$13,362	\$13,706	\$3,410	199,691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and 690% of the three year cash flow is \$39.7 million.

It is the intention of Euron to provide to the lavestor monthly distributions of net cash flow, and to have an Euron affiliate provide up to 75% of selfer financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Euron will generate more than \$40 million in inventment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was involved.

- Lead managed Azuria's, Euron's International water utility rubsidings, IPO (5700 million)
 Advised on subsequent 2035 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisups assignancest
 Co-lead for \$500-750 million high yield insurance (carrently on hold)
- Co-managed a New Issue Common Equity offering for Euron Corp. (\$365 million)

- Currently working with the CFO to raise a \$500 million private equity fund (LIM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Economia global diversified energy company. Earon is the largest buyer and seller of antural gas and alsowinity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operation and products or describely worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-hard fifter optic network will be the first intermed Protectod backbone in the U.S. Additionally, through its intermational water company. Earons were and/or operates water systems in the U.S., Europe, Canada, Meccico and Argentina. As of June 30, 1999, Earons toset assets were 33 billion and its equily market explaintation was approximately 522 billion. For the year ended December 31, 1994, Earon generated resource of \$31,3 billion, up 52% over the year ended December 31, 1994, Earon generated resource of \$31,5 billion, up 52% over the year ended December 31, 1995, proportively, and has been named the most innovative company in the world by Forbes for the past four years.

part nou years.

Euron is organized as a holding company with four energy-related operating subsidiaries (Enron Nerth America, Euron Gar Pipelines, Euron Energy Services and Porlland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azarin). Energy regulated business includes two operations ensuring say policines, comprised of Euron Cas Pipelines, which owns and operates aid of Euron's Referally regulated intertates matural gas pipelines, and Porland General (Euron recently announce the sale of Porland General Woich Sould educe in the next year), an electric distribution, insurantision and generation company serving the Oregon market. Wholesale energy services, comprised of Euron North America, is currently Euron's largest business are mastered by operating profit, and provides commonly sales (nature) gas, electricity, and other energy commonities) and services (asset management, risk management) to large industrial, commercial and utility extremes and the U.S. and intervalentally. Euron's anewest energy business is in retail energy services, which provides total energy outstouring solutions to major cosporations in the U.S. These solutions include intratructure management packaged with new equipment intollation and commodify porchases on behalf of the large experience austoners.

Earon's two newest businesses, Earon Communications and Azurix, are positioned to take advantage of positive bestiness fundamentals outside of Earon's energy operations. Earon Communications is constructing an over 10,000 mile nationwide long hast fiber optic network that will offer breadband application services over an laterate Protocol natwork. Additionally, Form Communications is pursuing an opporativity to create a market for the studing of bindwidth capacity on fiber systems. Azurix is an \$330 million publicly maded international water company (19% controlled by Emroy) which plass to take advantage of the significant opportunities that exist for private sector participation is the global water industry, including acquiring extuting water and wastewater systems via privatations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

APPROPRIATION REQUEST COVER PAGE [\$ in Thousands] ICG Project Name:

Management Unit:

CICG

Project Name: Enron Nigerian Barge Equity
Financial Commitment: \$ 7 Million

Group: Project Start / Finish:

Needs to Close by 12/31/99 — Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Facility:

Special Purpose Vehicle \$7.0 Million Equity

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds

Timing:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp. Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

NA

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Euron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$79 million from the Nigerian government. Euron wants to sell the first 3 years of cash flow for \$22MM. They propose to do this by having ML establish a U.S. special purpose entity (the \$EPC_) cowned by Merrill Lynch. The \$PSE will be explainted by our \$7MM investment and a \$21MM mos-recourse loan from Euron Corp which will then purchase non-voting common stock in the Euron subsidiary that owns the barges. Euron will have a total investment of \$54 MM in the project. Euron sis in active negotiations with several equity investors, including Marubent. However, they are not able to close the transaction with a long-term bolder by year-end. Euron will \$5cillate our exit from the transaction with third party investors. Dan Bayly will have a conference call with genior management of Earon confirming this commitment to guaranty the ML takeout within six nooths.

Euron has strongly requested ML to enter into this transaction. Euron has paid ML approximately \$40

Enron has strongly requested M.I. to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

	APPROPRIAT	ION REQUEST APP	ROVALS
fanagement Unit:	CICG	Project Name: En	ron Nigerian Barge Equity
		Financial Commitmen	t: \$7 million
PONSOR:			
Originator:	•		
	Rob Furst	_	
fgmt. Unit Controller:			
Igmt. Unit Head:		- .	
roup Finance Director.			
roup EVP:			
ther Reviews		Corporate Approvals	
ebt Markets Capital		•	
ommittee:	Group/Date	_ Chief Financial Officer:	
eer Project Review;		Executive Committee:	
-	Date		,
		Audit and Finance Committee:	4
ate Approved:		Other:	

MS 24584

Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price \$ 7.00 Million 21.00 Million \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Stevenire

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Earon will own the Preferred B Shares. The summary below indicates the economic interests before and date for Trigger Date. It much case, the shell indicates the Costs Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class

Pre Trigger Date

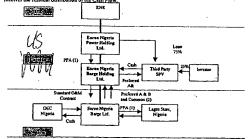
Post Trigger Date

Preferred A (Purchaser) Preferred B, (Enron) Common Stock (Purchaser) 0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B

0.1% of CF 99.0% of CF After Pref A 00.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cush Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cush Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cush Flow.

ENE



- PPA is between Enron Nigeria Power Holding Ltd and the Lagoe State of Nigeria. Subsequently, the rights to the PPA (barge extivities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Duron Nigeria Barge Ltd.
- (2) Earon Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
- (3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.
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Cost Summary (US \$000)

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Total EPC	40,100
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection

ection of 90% of Net	Cash Flow (US 50	00)		
Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,123	\$13,362	\$13,706	\$3,410	\$39,691

The \$45.6 million project costs are to be paid by Enron. The not cash flow projected over the three year Phase I project life is \$44.1 million, and d50% of the three year cash flow is \$39.7 million.

It is the intention of Euron to provide to the Investor monthly distributions of set cash flow, and to have an Euron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Erron Corp. (the "Compasy" or "Enzon") has developed significantly over the past year as Enzon will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Earon transactions in which Merrill was involved.

- Lead managed Azurka's, Enron's international water utility subsidiary, IPO (5700 million)
 Advised on subsequent £315 million sequinition of AMM Acqua Management Inc.
 Currently working on several bay side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$365 million)

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Company Overview:

Earon is a global divertified energy company. Earon is the largest boyer and seller of natural gas and electricity in the world and owns 12,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Peatific Rim. Once completed, the Company's long-hand lifter optic network will be the first Internet Protocol backbone is the U.S. Additionally, through its international water company. Enron owns and/or operates water systems in the U.S. Europe, Canada, Merclos and Argentiles. As of June 20, 1999, Enron's total axets were 534 billion and its equity market capitalization was approximately 312 billion. For the year ended December 31, 1998, Enron Enternat revenue of S13 billion, by 250 wor the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the percind from 1995 to 1998, representatively, and has been named the most innovative company in the world by Forbes for the past four years.

Earon is organized as a holding company with four energy-related operating subsidiaries (Entron North America, Earon Gas Fipelines, Earon Energy Services and Portland General) a telecomminications subsidiary (Entron Communications) and an international water company (Amrich, Enror's regulated business includes two operations – natural gas pipelines, comprised of Euron Ose Fipelines, entropy and of Euron's Coferrally regulated internate natural gas pipelines, and Portland General Caron recently announce the sale of Portland General which should does in the next year, an electric distribution, entancision and generation company serving the Oregon market. Wholesate energy services, comprised of Euron North America, is currently Euron's largest business as measured by operating ports, and provides commodity asks (natural gas, electricity, and other energy commodicity) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internalizable. Euron's asserts energy inclusions its result energy service business, comprised of Euron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions included instructure management packaged with new equipment installation and contendify purchases on behalf of the large coperate vustomers.

Enton's two newest businesses. Enton Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enton's energy operations. Enton Communications is constructing an over 10,000 mile autionated long hand liber optic network that will affer broadband application services over an Internet Protocol network. Additionally, Enton Communications is jurning an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azuriz is so \$1500 million publicly raded international water company (10% controlled by Enton) which plants to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems and privatezions, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

APPROPRIATION REQUEST COVER PAGE (5 in Thousands) ICG Project Name:

Management Unit:

Enron Nigerian Barge

Group: Project Start / Finish:

IBK Needs to Close by 12/31/99 – Takeout by 6/30/00

Equity
Financial Commitment: \$ 7 Million

EXECUTIVE SUMMARY
Entity:

Special Purpose Vehicle \$7.0 Million Equity

Facility:

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Timing:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Closing by year end 1999.

NA

Company Counsel: Underwriter Counsel: Vincent & Elkins

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% renum per annum.

ML Research Coverage:

Leo J. Keiser

Jeff McMahon, EVP and Treasurer of Euron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Euron Corp. to book \$12MM of earnings. Euron most close this transaction by 1231199. Euron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of eash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of eash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the \$5PE*), owned by Merrill Lynch. The \$7PE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will acilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

**Romo has strongly requested ML to enter into this transaction. Enron as oaid ML approximately \$40.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

Werrill Lynch	APPROPRIATIO	N REQUEST APPR	ROVALS
lanagement Unit:	CICG	Project Name: Enr	on Nigerian Barge Equity
		Financial Commitment	t: \$7 million
PONSOR:			
riginator:	Rob Furst		
igmt, Unit Controller:	with the same of t		
lgmt. Unit Head:			
roup Finance Director:			
roup EVP:			
ther Reviews		Corporate Approvals	
ebt Markets Capital ommittee:	Group/Date	Chief Financial Officer.	- Washington
eer Project Review:	Date	Executive Committee:	
		Audit and Finance Committee:	

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$7.00 Million
Acquisition Loan (from Enron to SPV) 21.00 Million
Total Purchase Price \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

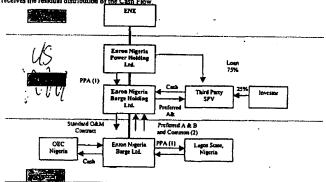
Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class Pre Trigger Date Post Trigger Date Preferred A (Purchaser) 0.1% of CF 0.1% of CF Preferred B, (Euron) 9.9% of CF After Pref A 99.0% of CF After Pref A Common Stock (Purchaser) 100.005 of CF After Pref A&B 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
- (2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
- (3) Preferred A Shares and Common are sold from Earon Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Earon Nigeria Barge Ltd.

BARGE PROJECT ECONOMIC SUMMARY 11.

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,123	\$13,362	\$13,706	\$3.410	103 052

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

ENRON OVERVIEW

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- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)
 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

- . Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of usaural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Euron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were 534 billion and its equity marker capitalization was approximately \$32 billion. For the year ended December 31, 1997, Enron generated reveaue of \$31.3 billion, up \$2% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Earon is organized as a holding company with four energy-related operating subsidiaries (Earon North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Earon Communications) and an international water company (Azuria). Enron's regulated business includes two operations - natural gas pipelines, comprised of Earon Gas Pipelines, which owns and operates all of Enron's federally regulated international gas pipelines, and Postland General Euron recently announce the side of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Orgon market. Wholesake energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sakes (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Earon's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth especity on fiber systems. Azurix is an \$550 million publicly trade international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wattewater systems via privatizations, providing water and wastewater reduced services to municipal and industrial water markets and developing and managing water resources.

APPROPRIATION REQUEST COVER PAGE (\$ in Thousands)

Management Unit:

CICG

Project Name:

Enron Nigerian Barge

Group: Project Start / Finish:

Financial Commitment: \$7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-: B3

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enroa Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 plus 15% per annum or a flat 22.5%

ML Research Coverage:

Leo J. Kelser Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21 MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron substidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a loag-term holder by year-end. Enron will actilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

Merrill Lynch	APPROPRIATIO	N REQUEST APPR	ROVALS
Management Unit: (cice	Project Name: Enr Financial Commitment	on Nigerian Barge Equity
SPONSOR:	****		
Originator:	Rob Furst		
Mgmt. Unit Controller:			
Mgmt. Unit Head:			
Group Finance Director.			
Group EVP:			
	water the second second second second second second second second second second second second second second se		
Other Reviews		Corporate Approvals	
Debt Markets Capital Committee:	Group/Date	Chief Financial Officer:	
Peer Project Review:	Date	Executive Committee:	A-1
		Audit and Finance Committee:	<u>.</u>
Date Approved:		Other:	

Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$ 7.00 Million
Acquisition Loan (from Enroa to SPV) 21.00 Million
Total Purchase Price \$28.00 Million

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Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

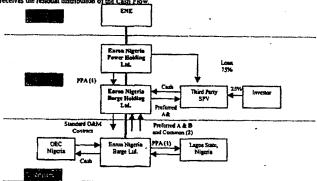
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There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class	Pre Trigger Date	Post Trigger Date
Preferred A (Purchaser) Preferred B, (Enron) Common Stock (Purchaser)	0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B	0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&R

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Earon Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)

BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1.014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45.614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,123	\$13,362	\$13,706	\$3,410	\$39,691

The \$45.6 million project costs are to be paid by Euron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Euron to provide to the Investor monthly distributions of net cash flow, and to have an Euron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Euron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was

- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)

 Advised on subsequent \$215 million acquisition of AMX Acqua Management Inc.

 Currently working on several buy side advisory assignments

 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Earon Corp. (\$865 million)

- · Currently working with the CFO to raise a \$500 million private equity fund (LIM2)
- Currently pitching to become Encon's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- . The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Earon is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first internet Protocol backbone in the U.S., Additionally, through its international water company, Earon owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were 334 billion and its equity market capitalization was approximately \$32 billion. For the year ended December 31, 1994, Enron generated revenue of \$31.1 billion, up 52% over the year ended December 31, 1995, Enron generated revenue of \$31.1 billion, up 52% over the year ended Demotor 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Earon is organized as a holding company with four energy-related operating subsidiaries (Earon North America, Earon Gas Pipelines, Earon Energy Services and Portland General) a telecommunications subsidiary (Euron Communications) and an international water company (Azurix). Enron's regulated business includes two operations - natural gas pipelines, comprised of Euron Gas Pipelines, which owns and operates all of Encon's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce side of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Euron's largest posiness as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and quility customers in the U.S. and internationally. Euron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Euron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long heal fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Euron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an \$850 million publicly waded international water company (70% controlled by Euron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

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APPROPRIATION REQUEST COVER PAGE

Management Unit:

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(\$ in Thousands) Project Name:

Enron Nigerian Barge

Group: Project Start / Finish:

IBK

Financial Commitment: 5 7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Facility:

Special Purpose Vehicle

57.0 Million Equity

Request

\$7.0 Million

Expected Ratings

B-, 33

(Moody'#S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999,

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fee:

Proposed \$256,000 kiss 15% per annum or a flat 27.5% return per annum.

ML Research Coverage:

Leg J. Kelter

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase S7MM of equity in a special purpose vehicle that will allow Enron Corp. to book S12MM of earnings. Enron must close this transaction by 12/51/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be539 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the \$787), owned by Merrill Lynch. The \$787 will be capitalized by our \$70MM investment and a \$311MM non-recourse loan from Enron Corp which will then purchase non-voting common stack in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not color to close the transaction with a long-term holder by year-end. Enron will Sacilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Euron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

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Merrill Lynch APPROPRIATION REQUEST APPROVALS Management Unit: CICG Project Name: Enron Nigerian Barge Equity Financial Commitment: \$7 million SPONSOR: Originator Ron Furst Mgmt, Unit Controller: Mgmt. Unit Head: Group Finance Director. Group EVP: Corporate Approvais Other Reviews Debt Markets Capital Committee: Chief Financial Officer: Group/Date Peer Project Review: Executive Committee: Audit and Finance Committee: Date Approved:

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution
Acquisition Loan (from Enron to SPV)
Total Purchase Price

\$ 7.00 Million 21.00 Million \$23.00 Million

Basis: 25% Internal Rate of Renum on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 34 Month Term, Amonization to be Agreed

Loan setured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Erron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder that received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class

Pre Triseer Date

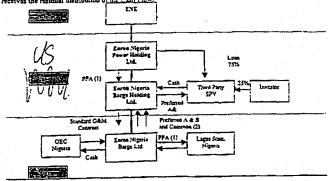
Post Triange Cate

Preferred A (Purchaser)
Preferred B. (Euron)
Common Stock (Purchaser)

9.9% of CF After Prof A 100.005 of CF After Prof A&B

0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&S

Before the Trigger Data, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (burge activities only) are assigned to Enron Nigeria Surge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd. , o
 - (I) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
 - Preferred A Shares and Common are sold from Euron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Euron Nigeria Barge Ltd. (3)
 - BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US 5000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15.200
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Continuency .	131
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US 5000)

Y== 2000	Year 2001	Year 2002	Year 2003 \$3,410	Total
59.125	S 362	\$13.706	55.410	\$33.401

The 545.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and 490% of the three year cash flow is \$39.7 million.

It is the intention of Euron to provide to the investor monthly distributions of act cash flow, and to have an Euron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

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- Lead managed Azuric's, Enron's international water utility subsidiary, IPO (5700 million)
 Advised on subsequent \$215 million acquisition of ANX Acqua Management Inc.
 Currently working on several buy side advisory assignment
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Ecron Corp. (S865 million)

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- . Currently working with the CFO to raise a \$500 million private equity fund (LIME)
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- . The Company is actively exploring power opportunities in continental Europe

Company Overview

Earon is a global diversified energy company. Earon is the largest buyer and seller of oatural gas and electricity in the world and owns 52,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe. Asia, the Americas and the Pacific Rim. Once completely long-hast fiber optic network will be the first insteme? Protocol backbone in the U.S. Extra the Company's long-hast fiber optic network will be the first international water company, Euron owns under operators were systems in the U.S. Extra the Company's Asy of June 30, 1995, Euron's total assets were 534 billion and its equity market emitalization was approximately \$32 billion. For the year ended December 31, 1998, Euron generated revenue of \$31.0 billion, up 52% over the year ended December 33. 1997.
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APPROPRIATION REQUEST COVER PAGE (\$ in Thousands)

fanagement Unit:

Project Name:

Enron Nigerian Barge

Froup:

Equity
Financial Commitment: \$7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

57.0 Million Equity

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds;

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Earon Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 plus 15% per annum or a flat 22.5%

ML Research Coverage:

Jeff McMahon, EVP and Treasurer of Euron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Euron Corp. to book \$12MM of earnings. Euron must close this transaction by 12/31/99. Euron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be539 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the \$PE*), owned by Merrill Lynch. The \$PE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Earon Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Euron confirming this commitment to guaranty the ML takeout within its months. Euron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price \$ 7.00 Million 21.00 Million 528.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Smuchwe

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enroa will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Calow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

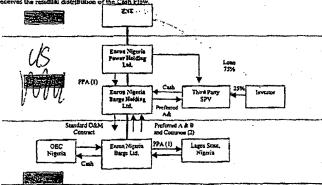
Stock Class

Pre Trisger Date

Post Trigger Date

Preferred A (Purchaser) Preferred B, (Enron) Common Stock (Purchaser) 0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B 0.1% of CF 99.0% of CF After Pref A 100,00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enton Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd. (1)
- (2) Enron Nigerian Barga Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)

TI. BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,600
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002 \$13,706	Year 2003	Total
\$9,123	\$13,362	\$13,706	53,410	539,691

The \$45.6 million project costs are to be paid by Euron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 millions.

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III. ENRON OVERVIEW

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Company Overview

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APPROPRIATION REQUEST COVER PAGE (5 in Thousands)

Management Unit:

CICG

Project Name:

Enron Nigerian Barge

Group: Project Start / Finish:

Financial Commitment: 5 7 Million

IBK Needs to Close by 12/31/99 – Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility: Request

57.0 Million Equity

Expected Ratings

27.0 Million

(Moody's S&P): Maturity:

3-, 33

Use of Proceeds:

Less than six months

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Earon Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 hus 15% per annum or a flat 22.5%

ML Research Coverage:

Leo J. Kelset

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase 57MM of equity in a special purpose vehicle that will allow Enron Corp. to book 512MM of earnings. Enron must close this transaction by 12/51/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be \$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entiry (the \$72\cdot), owned by Merrill Lynen. The \$72\cdot will be capitalized by our \$75MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months. Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

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Merrill Lynch			-
	APPROPRIATIO	N REQUEST APPR	OVALS
Management Unit:	gement Unit: CICG Project Name: Enron Ni		on Nigerian Barge Equity
· ·		Financial Commitment	S7 million
SPCNSOR:			
Originator:	Roe Furs:	•	
Mgmt Unit Controller:			
Mgmt. Unit Head:		•	
Group Finance Director:		· .	
Group EVP:		•	
Other Reviews		Corporate Approvals	
Debt Markets Capital Committee:	Group/Date	Chief Financial Officer:	
Peer Project Review:	Date	Executive Committee:	· · · · · · · · · · · · · · · · · · ·
		Audit and Finance Committee:	•
Data Approved:		Other:	

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price S 7.00 Million 21.00 Million 523.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 34 Month Term, Amortization to be Agreed
Loan secured by Purchaser's interest in the Barga Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Erron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class

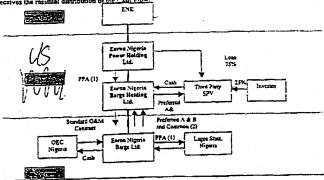
Per Trister Date

Post Trigger Care

Preferred A (Purchaser)
Preferred B, (Enron)
Common Stock (Purchaser)

0.1% of CF 9.9% of CF After Prof A 100.003 of CF After Prof A&B 0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&B

Before the Trigger Data, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Data, the Emon Preferred B Shares receive approximately 99.0% of the Cash Flow and utler distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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TIME LINE

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Cost Summary (US 5000)

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Barge Upgrades and Coshore Cost	15,800
Total EPC	40,300
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2.119
Contingency .	i31
Total Costs	545,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 1002	Year 2003 \$3,410	Total
	\$13.362	\$13,706	E= 110	165.622
59 123				

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It is the intention of Euron to provide to the Investor monthly distributions of act cash flow, and to have an Euron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Enron will generate more than \$40 million in inverment banking fees in 1999. The following points toentry current issues related to the Company and significant recent Euron transactions in which Merrill was involved.

- Lead managed Azuriv's, Enron's international water utility subsidiary, IPO (5700 million)
 Advised on subsequent \$235 million acquisition of ANX Acqua Management Inc.
 Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (5865 million)

*

- Currently working with the CFO to raise a \$500 million private equity fund (LJMC)
- Currently pitching to become Euron's flauncial advisor for private equity in its telecommunications subsidiary (Euron Communications).
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Earon is a global diversified energy company. Earon is the largest buyer and seller of natural gas and electronity in the world and owns 52,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first internet Protocol backbone in the U.S. Additionally, chrough his international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were 534 billion and its equity market majnification was approximately 532 billion. For the year ended December 31, 1998, Earon generated revenue of \$31.13 billion, up 52% over the year ended December 31, 1997, Earon grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1995, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Earon is organized as a holding company with four energy-related operating subaldiaries (Earon North America, Earon Gas Pipelines, Earon Energy Services and Portland General) a Selectrimunications subaldiary (Earon Communications) and an international water sampany (America, Enron's regulated business includes two operations natural gas pipelines, compensed of Earon Gas Pipelines, which owns and operates all of Enron's federally regulated internate natural gas pipelines, and Portland General (Earon recently announce the sale of Portland General which should clear in the next year), as electric disclination, amandasistion and generation company sarving the Cregon market. Wholesale energy services, comprised of Earon North America, is currently Earon's largest business as measured by operating profit and provides commodity sales (natural gas, electricity, and other energy customers in the U.S. and internationally. Enron's newest energy business its retail energy services business comprised of Earon Energy Services, which provides total energy outcourting solutions to major comportations in the U.S. These solutions include infrastructure annagement packaged with new equipment installation and commodity purchases on height of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long hard fiber optic network that will offer broadband application services over an internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth especity on fiber systems. Azurix is an \$850 million publicly traded international water company (7078 controlled by Enron) which plans to take advantage of the significant opportunities that exists for private sector participation in the global water industry, including acquiring estiming water and settempter via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

To: Gary Dolan 3x3207
APPROPRIATION REQUEST COVER PAGE

Management Unit:

(\$ in Thousands)

Project Name:

Enron Nigerian Barge

Group: Project Start / Finish:

Equity
Financial Commitment: \$ 7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

CICG

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, 83

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel;

Vincent & Elkins

Underweiter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Leo J. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase S7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be \$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$238MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse losa from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubent. However, they are not able to close the transaction with a long-term holder by year-end. Enron will Jacilitate out from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

MS 24612

S/1.9

DEC SS .88 82: 726W WERRITT LYNCH RBEG

	APPROPRIATIO	N REQUEST APPRO	OVALS
Management Unit:	CICG	Project Name: Enror	Nigerian Barge Equity
		Financial Commitment:	\$7 million
SPONSOR:			
Originator:			
	Rob Furst		
Mgmt. Unit Controller:			
Mgmt. Unit Head:		•	
Group Finance Director			
			•
Group EVP:		_	
		•	
Other Reviews		Corporate Approvals	
Debt Markets Capital			•
Committee:	Group/Date	Chief Financial Officer:	
Peer Project Review:	Date	Executive Committee:	
		Audit and Finance Committee:	÷
Date Approved:		Other:	

MS 24613

2/2.9

DEC SS .88 B2: 7264 WERRITT FLACH BBLC

Appendix

1. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution 5 7.00 Million
Acquisition Loan (from Enron to SPV) 21.00 Million
Total Purchase Price 528.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 26 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

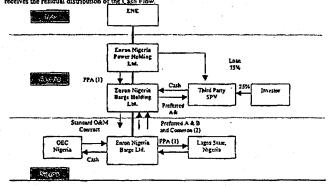
Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class	Pre Trieger Date	Post Trieger Date
Preferred A (Purchaser)	0.1% of CF	0.1% of CF
Preferred B, (Enron)	9.9% of CF After Pref A	99.0% of CF After Pref A
Common Stock (Purchaser)	100.005 of CF After Pref A&B	100,00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



MS 24614

S∕E.9

DEC SS .88 DS: TEM WERRITT LYNCH REFG

TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Euron Nigeria Barge Ltd. (3)
- BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	131
Total Costs	\$45.614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
59,123	Year 2001 \$13,362	Year 2002 \$13,706	\$3,410	\$39,691

The S45.6 million project costs are to be paid by Euron. The net cash flow projected over the three year Phase I project life is S44.1 million, and d90% of the three year cash flow is S39.7 million.

It is the intention of Euron to provide to the Investor monthly distributions of net cash flow, and to have an Euron affiliant provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of

ENRON OVERVIEW

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Enron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was involved.

- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)

 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.

 Currently working on several buy side advisory assignments

 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

MS 24615

9/2"d

DEC SS . 33 02: TESM LERRITT FANCH URLE

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Earon's financial advisor for private equity in its telecommunications subsidiary (Earon Communications)
- . The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns \$2,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first internate Protocol backbone in the U.S. Additionally, through its international water company and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were \$314 billion and its equity market capitalization was approximately \$325 billion. For the year ended December 31, 1998, Enron generated revenue of \$31.35 billion, up \$22% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of \$0% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azurix). Enron's regulated business includes two operations on natural gas pipelines, comprired of Enron Gas Pipelines, which owns and operates all of Foron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company services for Organ market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the tracing of bandwidth espacity on fiber systems. Azurix is an 3550 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water assetswater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

To: Gary Dolan 3x3207
APPROPRIATION REQUEST COVER PAGE

(\$ in Thousands)

Management Unit:

Project Name:

Enror Nigerian Barge

Group: Project Start / Finish:

Needs to Close by 12/31/99 -Takeout by 6/30/00

CICG

Financial Commitment: S 7 Million

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

NA

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

Leo J. Kelser

ML Research Coverage:

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be \$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$228MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will actilitate our sets from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this committenent to guaranty the ML takeout within six months.

Enron has extrapely requested MI to a pure into this transaction. Engage has paid MI approximately \$40.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

5/1.9

DEC SS . 85: TS-W WESSIFF FANCH BBLC

	APPROPRIAT	ION REQUEST APPROVA	LS	
Management Unit:	CICG	Project Name: Enron Nige	nron Nigerian Barge Equity	
		Financial Commitment:	\$7 million	
SPONSOR:				
Originator:	Rob Furst			
1				
Mgmt Unit Controller.				
		•		
Mgmt. Unit Head:				
Group Finance Director.				
Group EVP:				
		·		
Other Reviews		Corporate Approvals		
Debt Markets Capital Committee:		Chief Financial Officer:		
	Group/Date			
Peer Project Review:		Executive Committee:		
	Date	And and Phase		
		Audit and Finance Committee:		
Date Approved:		Other:		

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DEC SS . 36 שביד האוכה הפני שפני ספר DEC

Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price \$ 7.00 Million 21.00 Million \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enton will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigget Date. In each ease, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

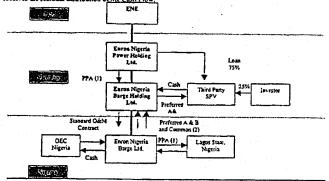
Stock Class

Pre Trigger Date

Post Trigger Date

Preferred A (Purchaser) Preferred B, (Enron) Common Stock (Purchaser) 0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B 0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



S/E'd

DEC 55 .99 מב: 126M הבצבורך הגאכא בבבפ

TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd. (1)
- (2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.
- BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US S000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
Year 2000 \$9,123	Year 2001 \$13,362	\$13,706	\$3,410	\$39,691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase J project life is \$44.1 million, and 490% of the three year cash flow is \$39.7 million.

It is the intention of Epron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

ENRON OVERVIEW

Metrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Euron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Mertill was involved.

- Lead managed Agurix's, Enron's international water utility subsidiary, IPO (\$700 million)
 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- . Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

2/p.9

DEC SS . 38 SS: 185W WERRITT ראוכא שפעפ

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Earon's financial advisor for private equity in its telecommunications subsidiary (Earon Communications)
- · The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic betwork will be the first hattenet Protocol backbone in the U.S. Additionally, through its international water company, Enron sund/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were \$34 billion and its 'quity market capitalization was approximately \$32 billion. For the year ended December 31, 1998, Enron generated revenue of \$31.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

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DEC 23 '99 09:24 FR MERRILL LYNCH

212 449 9015 TO 92367584

P.02/06

APPROPRIATION REQUEST COVER PAGE

Project Name:

Enron Nigerian Barge

Management Unit: Group: Project Start / Finish:

Financial Commitment: \$7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

B-, B3

Expected Ratings (Moody's/S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Burge Co., indirectly owned by Euron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 plus 15% per annum or a flat 22.5%

return per annum.

ML Research Coverage;

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Euron Corp which will then purchase non-voting common stock in the Euron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will "scilltate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Euron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

DEC 23 '99 89:24 FR MERRILL LYNCH 212 445 במוסכשכ שיינטי אסרוסכש עוו כנושר באיז 212 אינטיים אינטייטים אינטייטיים אינט

Merrill Lynch			
-	APPROPRIATIO	N REQUEST APP	ROVALS
Management Unit:	CICG	Project Name: En	ron Nigerian Barge Equity
		Financial Commitmen	nt: \$7 million
SPONSOR:			
Originator:	Rob Furst	-	
Mgmt. Unit Controller:	Non i dist	e e e e e e e e e e e e e e e e e e e	
Mgmt, Unit Head:		• •	
Group Finance Director:		- -	
Group EVP:			
Other Reviews		Corporate Approvais	
Debt Markets Capital Committee:		Chief Financial Officer:	
	Group/Date		
Peer Project Review:	Date	Executive Committee:	
		Audit and Finance Committee:	*
Date Approved:		Other:	

· DEC 23 '99 89:25 FR MERRILL LYNCH

212 449 9015 TO 92367584

P.05/06

TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd. (1)
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)

BARGE PROJECT ECONOMIC SUMMARY П.

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2.119
Contingency	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
		\$13,706	\$3,410	\$39.69
ED 123	613 352			

The \$45.6 million project costs are to be paid by Emon. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Euron to provide to the Investor monthly distributions of net cash flow, and to have an Euron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

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 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

212 449 9015 TO 92367584

P.06/06

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were \$34 billion and its equity market capitalization was approximately \$32 billion. For the year ended December 31, 1998, Enron generated revenue of \$31,3 billion, up \$27% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years. past four years.

Enron Gas Pipelines, Enron Energy Services and Portland General) a relecommunications subsidiary (Enron Communications) and an international water company (Azurix). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General (Enron recently announce the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy customers in the U.S. and internationally. Enron's newest energy business is is retail energy services dutility customers in the U.S. and internationally. Enron's newest energy outsomers in the real energy services business, comprised of Enron Energy Services, which provides total energy outsomers in the real energy services business.

U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azuriz, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an \$350 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and watewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

C L I F F O R D C H A N C E

CLIFFORD CHANCE US LLP

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James B. Weidner Partner

DIRECT TEL +1 212 878 8235 DIRECT FAX +1 212 878 8375

November 8, 2002

BY HAND

The Honorable Carl Levin, Chairman
The Honorable Susan Collins, Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Sir and Madam:

I write on behalf of Merrill Lynch in response to your October 18, 2002 letter to G. Kelly Martin posing additional questions arising out of my letter to you of September 13, 2002. Merrill Lynch welcomes this opportunity to further assist the Subcommittee in its investigation relating to Enron Corporation.

The specific responses to your questions are set forth below and reflected in the enclosed documents. As previously noted, damage caused by the September 11 terrorist attacks and technical limitations have impaired Merrill Lynch's ability to retrieve documents and e-mail communications. Accordingly, these responses are based upon the best information presently available to Merrill Lynch.

Please explain how Ebarge, LLC (Ebarge), a wholly owned Merrill Lynch special purpose entity, could generate tax benefits to Enron by being redomiciled in the Cayman Islands. If Merrill Lynch was the sole owner of Ebarge, what tax benefits could accrue to Enron as a result of Merrill Lynch's redomiciling Ebarge in the Cayman Islands? What tax benefits did accrue to Enron as a result of Merrill Lynch's redomiciling Ebarge in the Cayman Islands. Who at Enron communicated to Merrill Lynch the tax benefits Enron sought to achieve by redomiciling Ebarge in the Cayman Islands, and to whom at Merrill Lynch were those sought-after Enron tax benefits conveyed? Please provide copies of any documents that explain or relate to the tax benefits Enron sought from Merrill Lynch's redomiciling Ebarge in the Cayman Islands.

Prior to Merrill Lynch's involvement, Enron, along with its outside legal counsel and other advisors, developed a comprehensive structure for the proposed investment opportunity in Enron Nigeria Barge Ltd. ("ENB"). One of the specific terms developed was the \$28 million share purchase price, with \$7 million to be provided by the equity investor and the remaining \$21 million to be financed

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C L I F F O R D C H A N C E CLIFFORD CHANCE US LLP

The Honorable Carl Levin The Honorable Susan Collins November 8, 2002 Page 2

by an Enron affiliate. Enron and its advisors contemplated that the special purpose entity ("SPE") set up by the investor to purchase the ENB shares would be domiciled outside the United States. Merrill Lynch understood from Enron that the rationale for establishing a foreign SPE included the desire by Enron to avoid any potential income tax issues presented by the loan interest payments that the equity investor would make to the lending Enron affiliate.

Merrill Lynch is unaware of any tax benefits accruing to Enron during the period of Merrill Lynch's investment as a result of the transfer of Ebarge's domicile to the Cayman Islands, as Ebarge made no interest payments to the Enron affiliate during that period. (While Ebarge was obligated to pay 12% interest on the loan, payments were contingent upon distributions to ENB shareholders, which did not occur during Merrill Lynch's investment. When Merrill Lynch sold Ebarge, the purchaser assumed all liabilities of Ebarge, including payment of the principal and accrued interest on the loan from the Enron affiliate.)

What benefits (tax or otherwise) did Merrill Lynch receive by redomiciling Ebarge in the Cayman Islands? Please identify and quantify all costs and any lost benefits that accrued to Merrill Lynch as a result of redomiciling Ebarge in the Cayman Islands.

Merrill Lynch neither received any benefits nor incurred any costs (other than ordinary legal costs and associated expenses) as a result of transferring the domicile of Ebarge to the Cayman Islands.

Enclosed herewith are additional documents (bates stamped MS 24470 through MS 24568) relating to the domicile transfer of Ebarge.

3. Who at Merrill Lynch was involved in redomiciling Ebarge, and who at Merrill Lynch made the decision to redomicile Ebarge? Why did Merrill Lynch agree to redomicile Ebarge? Why were the Cayman Islands selected?

The law firm of Whitman Breed Abbott & Morgan handled the Ebarge domicile transfer on behalf of Merrill Lynch. The Merrill Lynch employees primarily involved in the transfer were Joseph Valenti and Kira Toone-Meertens.

As previously explained, Merrill Lynch initially could not accommodate Enron's request to establish Ebarge's domicile in the Cayman Islands because there was insufficient time before year-end to complete the required paperwork and to conduct the necessary diligence associated with setting up such an entity. Once the transaction closed, Merrill Lynch was able to follow the structure of the transaction as originally conceived by Enron and its advisors.

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The Honorable Carl Levin The Honorable Susan Collins November 8, 2002 Page 3

4. Did Ebarge generate any income during the period of Merrill Lynch's ownership? If so, how much did it generate? Was any of this taxable income, and if so, how much?

The 1999 Form 1120 and accompanying schedules prepared for ML IBK Positions, Inc. (enclosed herewith, bearing bates numbers MS 24569 through MS 24571) indicate that Merrill Lynch paid taxes on \$5,753 in ordinary income earned by Ebarge in 1999.

- 5. In your response to question 5 of our August 16, 2002 letter, you stated that "no individual within Merrill Lynch superior or equal to [Mr. John] Olson in rank... specifically recalls any discussion with Olson that related to complaints about his research coverage of Enron."
 - (a) Does any individual who currently works for Merrill Lynch generally recall any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.
 - (b) Do any individuals who worked for Merrill Lynch in 1998 recall (generally or specifically) any communications with Mr. Olson related to any of the issues listed in question 5 of our August 16, 2002 letter? If so, please identify these individuals, and provide a summary of their communications with Mr. Olson relating to these issues.
 - (c) Did Merrill Lynch at any time discuss any of the issues listed in question 5 of our August 16, 2002 letter with Andrew Melnick or any other former Merrill Lynch employee who was employed at Merrill Lynch in 1998? If so, please identify these individuals and provide a summary of their communications.

(a)(b): Merrill Lynch is unaware of any current or former employee who recalls any discussions with Olson involving any of the issues identified in Question No. 5 of your August 16, 2002 letter.

- (c): Merrill Lynch on separate occasions discussed at least some of the issues identified in Question No. 5 of your August 16, 2002 letter with Andrew Melnick, Schuyler Tilney, Susan Preli, Linda Gausney, George Nitschelm, Stanley Rubin, and Ken Thompson. We note also that your Committee Staff has interviewed Messrs. Tilney and Furst and taken testimony from Mr. Bayly on this subject. Merrill Lynch refers you to the responses set forth herein and in my letter of September 13, 2002, which collectively reflect its current understanding with respect to such issues.
- Your response to question 6 of our August 16, 2002 letter states that "Mr. Allison recalls only one conversation with an Enron executive, which he believes occurred sometime in April 1998." Please identify this executive and why Mr. Allison was

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The Honorable Carl Levin The Honorable Susan Collins November 8, 2002

Page 4

speaking with this executive. Did Mr. Allison initiate the conversation? Was the conversation in person, by telephone, or by some other means? Does Mr. Allison recall anything about the call? If so, what does he recall.

Merrill Lynch understands the following: Mr. Allison does not recall with certainty the person with whom he spoke, but he believes it was Kenneth Lay. The conversation was by telephone. Mr. Allison telephoned Mr. Lay because he had received a memorandum from Messrs. Tilney and Gordon asking him to do so. Mr. Allison's recollection is that the call was quite short. Mr. Allison has no recollection of the conversation, but his normal practice in a situation like this was to ask the CEO to explain whatever problem he had and then respond. Mr. Allison is certain that he did not suggest to Enron that he or anyone else at Merrill Lynch would attempt to influence the research analyst coverage of Enron stock.

Please respond "yes" or "no" to the following question: was Mr. Olson's departure from Merrill Lynch in any way related to the subject matter of the April 18, 1998 memorandum from Rick Gordon and Schuyler Tilney to Herb Allison? If the answer is "yes," please explain how it was related.

Mr. Melnick made the decision to terminate Olson. He has stated that his decision was not based on or related to the subject matter of the April 18, 1998 memorandum. Merrill Lynch respectfully refers you to Response Nos. 5 and 7 set forth in my letter to you of September 13, 2002 for further information regarding the issues surrounding Olson's departure.

With this letter and its enclosures, Merrill Lynch has now produced all non-privileged information and materials identified to date relating to the issues raised in the Subcommittee's October 18, 2002 letter to Mr. Martin.

Respectfully,

James B. Weidner

enclosures

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FAX MEMORANDUM

Mr. Eduardo Andrade

DATE

December 28, 1999

COMPANY

Whitman Breed Abbott & Morgan, LLP

1:45 PM

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(212) 351-3131 Britt-Marie Holben

12/99/1582

(404) 233-9629

Deur Mr. Andrade:

Further to our telephone conversation of earlier today, we are pleased to attach information on Limited Duration Companies in the Cayman Islands, a formation questionnaire, as well as fee

The price to form a Limited Duration Company is the same as for an Exempted Company.

We have asked our Group's Cayman Company to confirm that the copy of the Arieles, which we have on file, is the most current. Upon receipt of a response from our local office, we will provide you with the correct copy.

Yours sinderely,

Britt-Mane Holben

Vice President - Client Services

Ce: Trident Trust Company (Cayman) Limited - Ms. Christine Rose-Smythe

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Tel (414) 233-5275 • Fax (414) 233-96270 • Faxili usu@linkentirust.com • www.indentirust.com

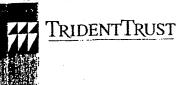
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CAYMAN ISLANDS

- Minimum government fee is US\$573 upon incorporation and US\$573 annually thoreafter (payable in January of each year).
- Maximum authorised capital allowed for the minimum government fee is US\$50,000.
- An Exempted Company which has issued bearer shares cannot own land or a vessel registered in the Cayman Islands; where no hearer shares have been issued an exemption can be applied for from the financial Secretary to hold such assets.
- . Company can be formed and registered within three working days.
- Foreign companies from approved jurisdictions may apply to be registered by way of continuation as a Cayman faempted Company.

Limited Duration Companies & Companies Limited by Guarantee

Onshore fiscal authorities (for example, United States, Japan) will treat as partnerships companies which include in their corporate structure features customarily found in partnerships. To assist users of these corporate "pass-thiough" entities, the Cayman Islands in 1993 introduced amendments to the Companies Law that purmit Exempted Companies to terminate their corporate existence on the occurrence of one or more events.

In addition, such companies (also known as Limited Liability Cumpanies) may issue two classes of shares, one with the benefit of limited liability and one with unlimited liability.

Other recent amendments to the Companies taw permit shareholders of an Exempted Company to guarantee the debts of the company to their full extent or to a limited extent.

Exempted Companies with those special features are incorporated using special Memorandum and Articles of Association.

Foreign Companies

Any company incorporated nutside of the Cayman Islands that establishes a presence in the Cayman Islands for the conduct of non-Cayman business must submit the following information for registration with the Registrar of Companies:

- a copy (in English), certified and authenticated under public seat, of its Memorandum and Articles of Association (or equivalent).
- a list of the company's directors and officers, including the address and nationality of each.
- I the address of the company's registered office in the Cayman Islands, or the name and address of a person resident in the Cayman Islands who is authorised to accept so wice of process for the company, Netry foreign company must exhibit at its place of business in the Islands, and must state on all letterheads, notices, bills, advertisements and other publications its name, is country of incorporation and the fact that the liability of its members is limited.

TRIBERT TRUSS COMPANY (CARMAN) 370 + 1cl 5-345-949-0880 + Fax 7-345-049-0881 + Cayman@tridenitrust.com

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CAYMAN ISLAND

COMPANIE

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Company Incorporation	uss	250
Government fee	USS	\$73
Registered office (per year)	US\$	750
Disbursements	US\$	302
TOTAL	US\$2	,375
Other Services		
Secretary (per year)	US\$	250
Nominee shareholder (per year)	. USS	250
Bank Signatories (per year)	uss	250
Annual government fee	uss	573
The above covernment fees are for an Exempled C	ompany with a share	

The above government fees are for an Exempted Company with a share capital of not more than US\$50,000.

Annual fees are payable in advance on formation and are billed annually in advance in October each your prorated as necessary.

The annual government fee is not prorated and is also billed in October each year and paid to the government in January of the following year along with the annual filings.

EXEMPTED RIMETED PARTNERSHIPS

Registration Attending to re

 Attending to registration
 US\$ 750

 Covernment registration fee
 US\$ 1,037

 Disbursements
 US\$ 3 100

 Annual
 VS\$ 750

 Covernment fee
 US\$ 1,037

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 US\$ 1,037

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CAYMAN ISLANDS

GENERAL FEE INFORMATION

Company and Trust fees are billed in advance upon formation and annually, thereafter. Due to the nature of the service provided fees are generally not refundable.

Work performed in addition to the services described above will be charged at our standard rates applicable to the personnel performing the work. Such time will be bitled in arrear either monthly, semi-annually or annually depending upon the volume of work performed.

- Hourly rates for additional services:
- Directors US\$250-300
- Accountants US\$130-250
- Clerical US\$50-139
- Secretarial USSSO
- Special transaction fees may be charged for work of a particularly unerous, time critical, high value or otherwise exceptional nature.
- To ensure that all January company filings are made in time fees should be paid no later than December 31.
- The above fee schedule excludes disbursements which are billed separately.
- The company may retain brokerage, Insurance or any other commissions received in the normal course of its business.
- A termination fee equal to one year's annual trustee fee is charged if the trust is closed or transferred within three years.
- Fees and expenses are quoted and payable in US dollars.
- Fees are subject to annual review.
- The registered office fee includes providing the local registered office, filing of the annual corporate roturn with the Registrar of Companies, preparing the annual statutory minutes of directors' meetings and preparing proxies for annual directors' meeting.

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CAYMAN ISLANDS

EXEMPTED COMPANY SHEARCHSOUNCE

CONDIDING A Information about shareholders is not filed with the Cayman Registrar of Companies. The name and address of each Director and Officer is required to be filed but is not available for public inspection. 1. PROPOSED NAME (in urder of preference) 2. OBJECTS OF THE COMPANY 2.7 Short form general objects clause This permits the company to do anything permitted under the Cayman Islands Company Law. If no, please attach a detailed description of your requirements. 2.2 For our information only, please provide details of the proposed activities of the company

- CAPITAL
 Authorised Capital may be stated in any currency.
- Unless instructed to the centrary, the company will be incorporated with an authorised share capital of US\$50,000 divided into \$0,000 shares of US\$1.00 per value each.
- Total government fees are higher where the authorised share capital exceeds US\$50,000 or the equivalent.

Please select and complete as indicated one of the following options:

- Standard Authorised Share Capital
- USS Authorised Share Capital

Number of shares _____at par value of US\$ _____

per share

U Other currency Authorised Share Capital

Number of shares ______ Currency and par volum

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- If shares in excess of US\$1,000 are to be issued, please confirm that funds have been made available for this purpose.

Names, addresses and nationality of Registered Shareholders Number	·, 5/-e/ 2.
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f more than two Shareholders please provide information on a separate page.	
3 Numînee Shareholders (Eins): US\$250 per annum) Shares will be held by Trident N	Nominee
Cayman) Ltd. for and on behalf of the beneficial owners.	
Bearer Shares	
lumber of shares to be issued for each certificate:	

It is a requirement of Cayman Islands Law that Trident Trust Company (Cayman) Limited be advised of the full name, residential address, occupation, and nationality of each beneficial owner. Please provide this information on a separate schedule along with:

* A reference letter for each beneficial owner from a personal banker, an attorney/solicitor or

- A photocopy of the passport of each beneficial owner, including the signature page for recognition purposes

Trident Trust Company (Cayman) Limited will require the principal beneficial owner to sign its standard indemnity agreement.

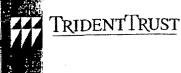
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CAYMAN ISLANDS

than two directors, please attach a separate schedule	ctor to be appointed, in the case
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	** ***
Address	NAV 7
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full description of accupation/business purpose	
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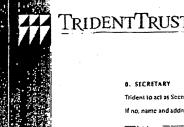
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O. SECRETARY		
Trident to act as Secretary (Cost: US\$ 250 per annum)	C Yes 11 No	
If no, name and address of Secretary		
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9. REGISTERED OFFICE AND AGENT IN THE CAYA This is a requirement of the Cayman Companies law	AAN ISLANDS	
Trident to provide Registered Office and act as Rogistere	d Agent D Yes D No	
If no, location of Registered Office		
30. COMPANY SEAL	•	
Cayman companies are not required to have a company seal but can adopt a seal if desired. Please indicate wheth		
a company seal is required.	El Yes II No	
11. ACCOUNTING REFERENCE DATE	·. ·	
Please confirm that the 31st December of each year show		
be specified as the financial year end of the company.	☐ Yes II No	
If no, please provide alternale date		
12. BANK ACCOUNT		
Please indicate whether you would like our assistance in the establishment of a bank account in the Cayman Isla	ands. [] Yes 11 No	
Completed by:		
Name	Title	
Company/Firm	E-Mail	
Address	Phone t)	
	Fax t)	

TRIDENT TRUSS COMPANY (CARMAN) ETD + 121 7-345-949-0880 + Fax 1-345-949-0881 + Cayman@tridentituss com

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TridentTrust

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Kings Court
Bay Street
P.O. Box N-3948
Nassau, Bahamus
Tel 1-242-328-1044
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One Capital Place
PO. Box 447
Grand Cayman
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Tel. 7-25-599-0880
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Limit ok@indonHrust.com U.S. VIRGIN ISLANDS TRIDENT TRUST CHIMPANY (V.L.) 110 (V.I.) Jan Citizank Building, Suite 200 Veterans Drive P.O. Binz 305304 St. Thomas, 06800-5004 J.S. Virgin Islanus Pet 1:3-0-778-7022 Pas 1:340-778-0625 Email wysterridentificst com

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Fas 3-284-476-1754
Email brittsridenttreat.com Whitepark House White Park Ruad P.O. Box 8361 P.O Box 8361
Bridgerown, Barbailos
Tel 1-246-431-0760
Fax 1-246-431-0591
Lmail harlsadns@iride

CYPRUS TRIDING TRUST COMPANY (MIDDLE EAST) LTD (Mino st. East) Lto
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TRIDENTTRUST

FAX MEMORANDUM

Mr. Eduardo Andrade

December 29, 1999

COMPANY

Whitman Breed Abbott & Morgan, LLP

11:36 AM TIME

(212) 351-3131

26 including errors

Britt-Marie Holben

12/99/1599

(404) 233-9629

Dear Mr. Andrade:

CAYMAN LDC

In reference to our telephone conversation of yesterday, we are pleased to attach a specimen copy of the Articles of Association for a Cayman LDC.

In the event you wish to receive this document via e-mail, we ask that you provide us with your e-mail address.

Our Group's Cayman Trust Company has advised us that there is a \$250.00 LDC registration fee due upon the formation of such an entity. This amount is in addition to the incorporation

Brit-Marie Holben

Vice President - Client Services

D follow by counce

Diollow by hand

TRIDENT CORPORATE SERVICES, INC.

3210-2 Produce Road N.E., Albras, Congo 10305, U.S.,
Tel (404) 231-5274 - Fax (404) 233-9624 - Final Ins@intentious.com

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THE COMPANIES LAW

EXEMPTED LIMITED DURATION COMPANY LIMITED BY SHARES

MEMORANDUM & ARTICLES OF ASSOCIATION

OF

CLIENT

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THE COMPANIES LAW

EXEMPTED LIMITED DURATION COMPANY LIMITED BY SILARES

MEMORANDUM OF ASSOCIATION

OF

CLIENT

- 1. The name of the Company is CLIENT.
- The Registered Office of the Company shall be at the offices of Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box \$47, Grand Cayman, Cayman Islands, British West Indies or at such other place as the Directors may from time to time decide.
- The objects for which the Company is established are unrestricted and shall include, but without limitation, the following:
- (i) (a) To carry on the business of an investment company and to act as promoters and entrepreneurs and to carry on business as financiers, capitalists, concessionaires, merchants, brokers, traders, dealers, agents, importers and exporters and to undertake and carry on and execute all kinds of investment, financial, commercial, mercantile, trading and other operations.
- (h) To carry on whether as principals, agents or otherwise howsoever the husiness of realtors, developers, consultants, estate agents or managers, builders, contractors, engineers, manufacturers, dealers in or vendors of all types of property including services.
- (ii) To exercise and enforce all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities including without prejudice to the generality of the foregoing all such powers of veto or control as may be conferred by virtue of the holding by the Company of some special proportion of the issued or nominal amount thereof, to provide managerial and other executive, supervisory and consultant services for or in relation to any company in which the Company is interested upon such terms as may be thought fit.
- (iii) To purchase or otherwise acquire, to sell, exchange, surrender, lease, mortgage, charge, convert, turn to account, dispose of and deal with real and personal property and rights of all kinds and, in particular, mortgages, debentures, produce, concessions, options, contracts, patents, annuities, licenses, stocks, shares, bonds, policies, book debts, business concerns, undenakings, claims, privileges and choses in action of all kinds.

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- (iv) To subscribe for, conditionally or unconditionally, to underwrite, issue on commission or otherwise, take, hold, deal in and convert stocks, shares and securities of all kinds and to enter into partnership or into any arrangement for sharing profits, reciprocal concessions or cooperation with any person or company and to promote and uid in promoting, to constitute, form or organize any company, syndicate or partnership of any kind. for the purpose of acquiring and undertaking any property and liabilities of the Company or of advancing, directly or indirectly, the objects of the Company or for any other purpose which the Company may think expedient.
- (v) To stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the Company in any manner and whether by personal covenant or mortgage, charge or lien upon the whole or any part of the undertaking, property and assets of the Company, both present and future, including its uncalled capital or by any such method and whether or not the Company shall receive valuable consideration therefor.
- (vi) To engage in or carry on any other lawful trade, business or enterprise which may at any time appear to the Directors of the Company capable of being conveniently carried on in conjunction with any of the aforementioned businesses or activities or which may appear to the Directors or the Company likely to be profitable to the Company.

In the interpretation of this Memorandum of Association in general and of this Clause 3 in particular no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the juxtaposition of two or more objects, businesses or powers and that, in the event of any ambiguity in this clause or elsewhere in this Memorandum of Association, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

4. Except as prohibited or limited by the Companies Law (Revised), the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it as incidental or conducive thereto or consequential thereon, including, but without in any way restricting the generality of the foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz:

to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to register the Company to do business in any other jurisdiction; to sell, lease or dispose of any property of the Company; to draw, make, accept, endorse, discount, execute and issue promissory notes, debentures, bills of exchange, bills of lading, warrants and other negotiable or

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transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the security of the undertaking or on all or any of the assets of the Company including uncalled capital or without security; to invest monies of the Company in such manner us the Directors determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to Members of the Company to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in cash or kind to Directors, officers, employees, past or present and their families; to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Directors, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid PROVIDED THAT the Company shall only carry on the businesses for which a licence is required under the laws of the Cayman Islands when so licensed under the terms of such laws.

- The liability of each member is limited to the amount from time to time unpaid on such member's shares.
- 6. The share capital of the Company is US\$50,000 divided into 50,000 Common shares of a nominal or par value of US\$1,00 each with power for the Company insofur as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Revised) (Cap.22) and the Anicles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.
- 7. If the Company is registered as exempted, its operations will be carried on subject to the provisions of Section 192 of the Companies Law (Revised) (Cap. 22) and, subject to the provisions of the Companies Law (Revised) and the Articles of Association, it shall have the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
- 8. The duration of the Company is limited to a period of thirty (30) years from the date of its registration, provided that the Company shall be taken to have commenced voluntary winding-up and dissolution upon the expiry of 90 days starting on the death, insanity, bankruptey, dissolution, liquidation (whether compulsory or voluntary), withdrawal, retirement or resignation of any of its shareholders, unless there remain at least two shareholders of the Company and the Company is continued in existence by the unanimous written resolution of those shareholders pursuant to amended articles of association of the Company adopted during that 90 day period. Where the death, insanity, bankruptey, dissolution, liquidation (whether compulsory or voluntary), withdrawal, retirement or resignation of any of the Company's shareholders causes the commencement of the winding-up of the Company in accordance with the Company's Memorandum and Articles of Association and Section 1950 of the Companies Law (Revised) of

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the Cayman Islands, the directors of the Company at the time of such commencement and without further action shall become the liquidators of the Company.

WE the several persons whose names and addresses are subscribed are desirous of being formed into a company in pursuance of this Memorandum of Association and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names.

SIGNATURE, ADDRESSES and DESCRIPTION OF SUBSCRIBERS

DESCRIPTION OF SUBSCRIBERS

TAKEN BY EACH

1 Ordinary share

Director
Trident Nominees (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

1 Ordinary share

Director
Trident Secretaries (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

Witness to the above signatures

I. Registrar of Companies in and for the Cayman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Memorandum of Association of this Company duly incorporated on the day of , 199.

REGISTRAR OF COMPANIES

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THE COMPANIES LAW

EXEMPTED LIMITED DURATION COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

CLIENT

1. In these Articles Table A in the Schedule to the Statute does not apply and, unless there be something in the subject or context inconsistent therewith,

"Articles" means these Articles as originally framed or as from time to time altered by Special Resolution.

"The Auditors" means the persons for the time being performing the duties of auditors of the Company.

"The Company" means the above named Company

"Debenture" means dehenture stock, mortgages, bonds and any other such securities of the Company whether constituting a charge on the assets of the Company or not.

"The Directors" means the directors for the time being of the Company.

"Dividend" includes bonus.

"Exempted Limited Duration Company" shall bear the meaning ascribed to it in the Statute.

"Member" shall bear the meaning ascribed to it in Section 37 of the Statute.

"Month" means calendar month.

"Ordinary Resolution" means a resolution passed by simple majority of the votes cast.

"Paid-up" means paid-up und/or credited as paid-up.

"The Registered Office" means the registered office for the time being of the Company.

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PAGE. 87 MS 24485 "Seal" means the common seal of the Company and includes every duplicate seal.

"Secretary" includes an Assistant Secretary and any person appointed to perform the duties of Secretary of the Company.

"Share" includes a fraction of a share.

"Special Resolution" has the same meaning as in the Statute and includes a resolution approved in writing as described therein.

"Statute" means the Companies Law of the Cayman Islands as amended and every statutory modification or re-enactment thereof for the time being in force.

"Written" and "In Writing" include all modes of representing or reproducing words in visible form.

Words importing the singular number only include the plural number and vice-

Words importing the masculine gender only include the feminine gender.

Words importing persons only include corporations.

- 2. The business of the Company may be commenced as soon after incorporation as the Directors shall see fit, notwithstanding that part only of the shares may have been allotted.
- The Directors may pay, out of the capital or any other monies of the Company, all
 expenses incurred in or about the formation and establishment of the Company including the
 expenses of registration.

CERTIFICATES FOR SHARES

4. Certificates representing shares of the Company shall be in such form as shall be determined by the Directors. Such certificates shall be under seal. All certificates for shares shall be consecutively numbered or otherwise identified and shall specify the shares to which they relate. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered in the register of members of the Company. All certificates surrendered to the Company for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled. The Directors may authorize certificates to be issued with the scal and authorized signature(s) affixed by some method or system of mechanical process.

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5. Notwithstanding Article 4 of these Articles, if a share certificate be defaced, lost or destroyed, it may be renewed on payment of a fee of one dollar (US\$1.00) or such less sum and on such terms (if any) as to evidence and indemnity and the payment of the expenses incurred by the Company in investigating evidence, as the Directors may prescribe.

ISSUE OF SHARES

- 6. (a) Subject to the provisions, if any, in that behalf in the Memorandum of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights previously conferred on the holders of existing shares, the Directors may allot, issue, grant options over or otherwise dispose of shares of the Company (including fractions of a share) with or without preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper.
 - (b) The authorised share capital of the Company shall be US\$50,000 divided into 50,000 Common Shares of US\$1.00 per value each.
 - f) The holders of Common Shares shall have the right to receive notice of, attend and vote at any general meeting of the Company, at which meeting the holder of each Common Share shall have the right to one vote for each such share registered in his name; and
 - (ii) The Directors shall be entitled to issue dividends to holders of Common Shares at such times and in such amounts as they, in their sole discretion, shall determine.
- 7. The Company shall maintain a register of its members and every person whose name is entered as a member in the register of members shall be entitled without payment to receive within two months after allotment or lodgement of transfer (or within such other period as the conditions of issue shall provide) one certificate for all his shares or several certificates each for one or more of his shares upon payment of fifty cents (USS0.50) for every certificate after the first or such less sum as the Directors shall from time to time determine provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue more than one certificate and delivery of a certificate for a share to one of the several joint holders shall be sufficient delivery to all such holders.

TRANSFER OF SHARES PROHIBITED

8. No share in the Company may be transferred without the prior unanimous written consent of all the holders of Common Shares, or, whenever there are fewer than two holders of Common Shares then in office as Directors, without the unanimous prior written consent of all of the outstands shares, which consent may in all cases be granted or withheld in each such holder's sole discretion.

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REDEEMABLE SHARES

- 9. Subject to the provisions of the Statute and the Memorandum of Association, shares may be issued on the terms that they are, or at the option of the Company or the holder are, to be redeemed on such terms and in such manner as the Company, before the issue of the shares, may by Special Resolution determine.
- 10. Subject to the provisions of the Statute and the Memorandum of Association, the Company may purchase its own shares (including fractions of a share), including any redeemable shares, provided that the manner of purchase has first been authorized by the Company in general meeting and may make payment therefor in any manner authorized by the Statute, including out of capital.

VARIATION OF RIGHTS OF SHARES

- 11. If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.
- 12. The provisions of these Articles relating to general meetings shall apply to every such general meeting of the holders of one class of shares except that the necessary quorum shall be one (1) person holding or representing by proxy at least one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.
- 13. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pair passu therewith.

COMMISSION ON SALE OF SHARES

14. The Company may in so far as the Statute from time to time permits pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any shares of the Company. Such commissions may be satisfied by the payment of eash or the lodgement of fully or partly paid-up shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

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NON-RECOGNITION OF TRUSTS

15. No person shall be recognized by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future, or partial interest in any share, or any interest in any fractional part of a share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any share except an absolute right to the entirely thereof in the registered holder.

REGISTRATION OF EMPOWERING INSTRUMENTS

16. The Company shall be entitled to charge a fee not exceeding one dollar (US\$1.00) on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, notice in lieu of distringas, or other instrument.

TRANSMISSION OF SHARES

- 17. In case of the death of a member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder, shall be the only persons recognized by the Company as having any title to his interest in this hares, but nothing herein contained shall release the estate of any such deceased holder from any liability in respect of any shares which had been held by him solely or jointly with other persons.
- 18. A person becoming entitled to a share by reason of the death or bankruptcy or liquidation or dissolution of the holder shall be entitled to the same dividends and other distributions to which he would be entitled if he were the registered holder of the share, except that he shall not before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company; and , further, he shall not be entitled to be registered as a member for a period of ninety-one (91) days (or such longer period as the Directors may in their absolute discretion determine either generally or in a particular case) following such death or bankruptcy or liquidation or dissolution, and in any event only if such registration as a member shall be approved by the unanimous prior written consent of all the holders of Common Shares, which consent may be granted or withheld in the sole discretion of each such holder.

AMENDMENT OF MEMORANDUM OF ASSOCIATION, CHANGE OF LOCATION OF REGISTERED OFFICE & ALTERATION OF CAPITAL

19. (a) Subject to and in so far as permitted by the provisions of the Statute, the Company may from time to time by ordinary resolution after or amend its Memorandum of Association otherwise than with respect to its name and objects and may, without restricting the generality of the foregoing:

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- (i) increase the share capital by such sum to be divided into shares of such amount or without nominal or par value as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine.
- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum of Association or into shares without nominal or par value;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.
- (b) All new shares created hereunder shall be subject to the same provisions with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.
- (c) Subject to the provisions of the Statute the Company may by Special Resolution change its name or alter its objects.
- (d) Without prejudice to Articles 9 & 10 hereof and subject to the provisions of the Statute the Company may by Special Resolution reduce its share capital and any capital redemption reserve fund.
 - (e) Subject to the provisions of the Statute the Company may by resolution of the Directors change the location of its registered office.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

20. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any divident, or in order to make a determination of Members for any other proper purpose, the Directors of the Company may provide that the register of Members shall be closed for transfers for a stated period but not to exceed in any case forty (40) days. If the register of Members shall be so closed for the purpose of determining Members entitled to notice of or to vote at a meeting of Members such register shall be so closed for at least ten (10) days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the register of Members.

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- 21. In lieu of or apart from closing the register of members, the Directors may fix in advance a date as the record date for any such determination of members entitled to notice of or to vote at a meeting of the members and for the purpose of determining the members entitled to receive payment of any dividend the Directors may, at or within 90 days prior to the date of declaration of such dividend fix a subsequent date as the record date for such determination.
- 22. If the register of members is not so closed and no record date is fixed for the determination of members entitled to notice of or to vote at a meeting of members or members entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of members. When a determination of members entitled to vote at any meeting of members has been made as provided in this section, such determination shall apply to any adjournment thereof.

GENERAL MEETING

- 23. (a) Subject to paragraph (c) hereof, the Company shall within one year of its incorporation and in each year of its existence thereafter hold a general meeting as its Annual General Meeting and shall specify the meeting as such in the notices calling it. The Annual General Meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall he held at the registered office of the Company on the second Wednesday in December of each year at ten o'clock in the morning.
 - (b) At these meetings the report of the Directors (if any) shall be presented.
- (c) If the Company is exempted as defined in the Statute it may but shall not be obliged to hold un Annual General Meeting.
- 24. (a) The Directors may whenever they think fit, and they shall on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, proceed to convene a general meeting of the Company.
- (b) The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office of the Company and may consist of several documents in like form each signed by one or more requisitionists.
- (c) If the Directors do not within twenty-one days from the date of the deposit of the requisition duly proceed to convene a general meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the said twenty-one days.

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(d) A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

- 25. At least five days' notice shall be given of an Annual General Meeting or any other general meeting. Every notice shall be exclusive of the date on which it is given or deemed to be given and of libe day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company PROVIDED that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of Article 24 have been complied with, be deemed to have been duly convened if it is so agreed:
- (a) in the case of a general meeting called as an Annual General Meeting by all the members entitled to attend and vote therest or their proxies; and
- (b) in the case of any other general meeting by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than seventy-five per cent (75%) in nominal value or in the case of shares without numinal value or par value seventy-five per cent (75%) of the shares in issue, or their proxies.
- 26. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings of that meeting.

PROCEEDINGS AT GENERAL MEETINGS

- 27. No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business; two (2) members present in person or by proxy shall be a quorum.
- 28. A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by all members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly authorized representatives) shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.
- 29. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place or to

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such other time or such other place as the directors may determine and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting the members present shall be a quorum.

- 30. The Chairman, if any, of the Board of Directors shall preside as Chairman at every general meeting of the Company, or if there is no such Chairman, or if he shall not be present within fifteen minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be Chairman of the meeting.
- 31. If at any general meeting no Director is willing to act as Chairman or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their number to be Chairman of the meeting.
- 32. The Chairman may, with the consent of any general meeting duly constituted hercunder, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting; save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned general meeting.
- 33. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is, before or on the declaration of the result of the show of hands, demanded by the Chairman or any other member present in person or by proxy.
- 34. Unless a poll be so demanded a declaration by the Chairman that a resolution has on a show of hands been carried, or curried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's Minute Book containing the Minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.
- 35. The demand for a poll may be withdrawn.
- 36. Except as provided in Article 38, if a poll is duly demanded it shall be taken in such manner as the Chairman directs and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.
- 37. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the general meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or easting vote.
- 38. A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the

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Chairman of the general meeting directs and any business other than that upon which a poll has been demanded or is contingent thereon may be proceeded with pending the taking of the poll.

VOTES OF MEMBERS

- 39. The business of the Company shall be managed by the members who shall be deemed to be the Directors of the Company unless the members delegate the management to a hoard of Directors. The members may delegate the management to a person or persons other than a board of Directors.
- 40. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member of record present in person or by proxy at a general meeting shall have one vote and on a poll every member of record present in person or by proxy shall have one vote for each share registered in his name in the register.
- 41. In the case of joint holders of record the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
- 42. A member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poil, by his committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other persons muy vote by proxy.
- 43. No member shall be entitled to vote at any general meeting unless he is registered as a shareholder of the Company on the record date for such meeting nor unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.
- 44. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at such general meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the general meeting whose decision shall be
- 45. On a poll or on a show of hunds votes may be given either personally or by proxies.

PROXIES

46. The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorized in writing, or, if the appointor is a corporation under the hand of an officer or attorney duly authorized in that behalf. A proxy need

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not be a member of the Company.

- 47. The instrument appointing a proxy shall be deposited at the Registered Office of the Company or at such other place as is specified for that purpose in the notice convening the meeting no later than the time for holding the meeting, or adjourned meeting provided that the Chairman of the Meeting may at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited upon receipt of telex, cable or telecopier confirmation from the appointor that the instrument of proxy duly signed is in the course of transmission to the Company.
- 48. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.
- 49. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insunity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company at the registered office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.
- 50. Any corporation which is a member of record of the Company may in accordance with its Articles or in the absence of such provision by resolution of its Directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company, and the person so authorized shall be entitled to exercise the same powers on behalf of the companion which he represents as the corporation could exercise if it were an individual member of record of the Company.
- 51. Shares of its own stock belonging to the Company or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time.

DIRECTORS

- 52. Notwithstanding anything to the contrary contained in these Articles, all provisions herein concerning Directors shall be subject to the provisions of Article 39.
- 53. There shall be a Board of Directors consisting of not less than one person and there shall be no maximum number of Directors (exclusive of Alternate Directors). The first Directors of the Company shall be determined in writing by, or appointed by a resolution of, the subscribers of the Memorandum of Association.
- 54. The remuneration to be paid to the Directors shall be such remuneration as the

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Directors shall determine. Such remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be paid their traveling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

- 55. The Directors may by resolution award special remuneration to any Director of the Company undertaking any special work or services for, or undertaking any special mission on behalf of, the Company other than his ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional expacity shall be in addition to his remuneration as a Director.
- 56. A Director or Alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.
- 57. A Director or Alternate Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or Alternate Director.
- 58. A shareholding qualification for Directors may be fixed by the Company in general meeting, but unless and until so fixed no qualification shall be required.
- 59. A Director or Alternate Director of the Company may be or become a Director or other Officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise and no such Director or Alternate Director shall be accountable to the Company for any remaneration or other benefits received by him as a Director or Officer of, or from his interest in, such other company.
- 60. No person shall be disqualified from the office of Director or Alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or Alternate Director shall be in any way interested be liable to be avoided, nor shall any Director or Alternate Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or transaction by reason of such Director holding office or of the fiduciury relation thereby established. A Director (or his Alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction in which he is so interested as aforesaid PROVIDED HOWEVER that the nature of the interest of any Director or Alternate Director in any such contract or transaction shall be disclosed by him or the Alternate Director appointed by him at or prior to its consideration and any vote thereon.

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61. A general notice that a Director or Alternate Director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure under Article 60 and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

ALTERNATE DIRECTORS

62. Subject to the exception contained in Article 71 a Director who expects to be unable to attend Directors' Meetings because of absence, illness or otherwise may appoint any person to be an Alternate Director to act in his stead and such appointe whilst he holds office as an Alternate Director shall, in the event of absence therefrom of his appointor, be entitled to attend meetings of the Directors and to vote thereat and to do, in the place and stead of his appointor, any other act or thing which his appointor is permitted or required to do by virtue of his being a Director as if the Alternate Director were the appointor, other than appointment of an Alternate to himself, and he shall ipso facto vacate office if and when his appointment of an Alternate to himself, and he appointe from office. Any appointment or removal under this Article shall be effected by notice in writing under the hand of the Director making the same.

POWERS AND DUTIES OF DIRECTORS

- 63. The business of the Company shall be managed by the Directors (or a sole Director if only one is appointed) who may pay all expenses incurred in promoting, registering and setting up the Company, and may exercise all such powers of the Company as are not, from time to time by the Statute, or by these Articles, or such regulations, being not inconsistent with the aforesaid, as may be prescribed by the Company in general meeting required to be exercised by the Company in general meeting PROVIDED HOWEVER that no regulations made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.
- 64. The Directors may from time to time and at any time by powers of altorney appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorneys as the Directors may think fit and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.
- 65. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for menies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall from time to time by resolution determine.

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- 66. The Directors shall cause Minutes to be made in books provided for the purpose:
 - (a) of all appointments of Officers made by the Directors;
- (b) of the names of the Directors (including those represented thereat by an Alternate or by proxy) present at each meeting of the Directors and of any committee of the Directors;
- (c) of all resolutions and proceedings at all meetings of the Company, and of the Directors and of Committees of Directors.
- 67. The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependents and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.
- 68. The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue dehentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

MANAGEMENT

- 69. The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in Article 70 shall be without prejudice to the general powers conferred by this paragraph.
- 70. (a) The Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any persons to be members of such committees or local boards or any managers or agents and may fix their remuneration.
- (b) The Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for use time being vested in the Directors and may authorize the members for the time being of any such local board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit. The Directors may at any time remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
- (c) Any such delegates as aforesaid may be authorized by the Directors to subdelegate all or any of the powers, authorities, and discretions for the time being vested in them.

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MANAGING DIRECTORS

- 71. (a) The Directors may, from time to time, appoint one or more of their body (but not an Alternate Director) to the office of Managing Director for such term and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way and partly in another) as they may think fit but his appointment shall be subject to determination ipso facto if he ceases from any cause to be a Director and no Alternate Director appointed by him can act in his stead as a Director or Managing Director.
- (b) The Directors may entrust to and confer upon a Managing Director any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit and either collaterally with or to the exclusion of their own powers and may from time to time revoke, withdraw, alter or vary all or any of such powers.

PROCEEDINGS OF DIRECTORS

- 72. Except as otherwise provided by these Articles, the Directors shall meet together for the despatch of business, convening, adjourning and otherwise regulating their meetings as they think fit. Questions arising at any meeting shall be decided by a majority of votes of the Directors and Alternate Directors present at a meeting at which there is a quorum, the vote of an Alternate Director not being counted if his appointor be present at such meeting. In case of an equality of votes, the Chairman shall have a second or casting vote.
- 73. A Director or Alternate Director may, and the Secretary on the requisition of a Director or Alternate Director shall, at any time summon a meeting of the Directors by at least two days' notice in writing to every Director and Alternate Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors (or their Alternates) either at, before or after the meeting is held and PROVIDED FURTHER if notice is given in person, by cable, telex or telecopy the same shall be deemed to have been given on the day it is delivered to the Directors or transmitting organization as the case may be. The provisions of Article 26 shall apply mutatis mutandis with respect to notices of meetings of Directors.
- 74. The quorum necessary for the transaction of the husiness of the Directors may be fixed by the Directors and unless so fixed shall be two, a Director and his appointed Alternate Director being considered only one person for this purpose, provided always that if there shall at any time be only a sole Director the quorum shall be one. For the purposes of this Article an Alternate Director or proxy appointed by a Director shall be counted in a quorum at a meeting at which the Director uppointing him is not present.
- 75. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the

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Company, but for no other purpose.

- 76. The Directors may elect a Chairman of their Board and determine the period for which he is to hold office; but if no such Chairman is elected, or if at any meeting the Chairman is not present within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.
- 77. The Directors may delegate any of their powers to committees consisting of such member or members of the Board of Directors (including Alternate Directors in the absunce of their appointors) as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
- 78. A committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in the case of an equality of votes the Chairman shall have a second or easting vote.
- 79. All acts done by any meeting of the Directors or of a committee of Directors (including any person acting as an Alternate Director) shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or Alternate Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director or Alternate Director as the case may be.
- 80. Members of the Board of Directors or of any committee thereof may participate in a meeting of the Board or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. A resolution in writing (in one or more counterparts), signed by all the Directors for the time being or all the members of a committee of Directors (an Alternate Director being entitled to sign such resolution on behalf of his appointor) shall be as valid and effectual as if it had been passed at a meeting of the Directors or committee as the case may be duly convened and held.
- 81. (a) A Director may be represented at any meeting of the Board of Directors by a proxy appointed by him in which event the presence or vote of the proxy shall for all purposes be deemed to be that of the Director.
- (b) The provisions of Articles 46-49 shall mutatis mutandis apply to the appointment of proxies by Directors.

VACATION OF OFFICE OF DIRECTOR

32. The office of a Director shall be vacated:

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- (a) If he gives notice in writing to the Company that he resigns the office of Director,
- (b) If he absents himself (without heing represented by proxy or an Alternate Director appointed by him) from three consecutive meetings of the Board of Directors without special leave of absence from the Directors, and they pass a resolution that he has by reason of such absence vacated office;
- - (d) If he is found a lunatic or becomes of unsound mind.

APPOINTMENT AND REMOVAL OF DIRECTORS

- 83. The Company may by ordinary resolution appoint any person to be a Director and may in like manner remove any Director and may in like manner appoint another person in his stead.
- 84. The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors but so that the total amount of Directors (exclusive of Alternate Directors) shall not at any time exceed the number fixed in accordance with these Articles.

PRESUMPTION OF ASSENT

85. A Director of the Company who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the Minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

SEAL

86. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorized by the Directors in that behalf and every instrument to which the Seal has been affixed shall be signed by one person who shall be either a Director or the Secretary or Secretary-Treasurer or some person appointed by the Directors for the purpose.

PROVIDED THAT the Company may have for use in any place or places outside the Cayman Islands, a duplicate seal or scals each of which shall be a facsimile of the Common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place

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where it is to be used.

PROVIDED FURTHER THAT a Director, Secretary or other officer or representative or attorney may without further authority of the Directors affix the Scal of the Company over his signature alone to any document of the Company required to be authonicated by him under Scal or to be filed with the Registrar of Companies in the Cayman Islands or clsewhere wheresoever.

OFFICERS

87. The Company may have a President, a Secretary or Secretary-Treasurer appointed by the Directors who may also from time to time appoint such other Officers as they consider necessary, all for such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors from time to time prescribe.

DIVIDENDS, DISTRIBUTIONS AND RESERVE

- 88. Subject to the Statute, the Directors may from time to time declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authorize payment of the same out of the funds of the Company lawfully available therefor.
- 89. The Directors may, before declaring any dividends, or distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business of the Company.
- 90. No dividend or distribution shall be payable except out of the profits of the Company, realized or unrealized, or out of the share premium account or as otherwise permitted by the Stanue.
- 91. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends or distributions, if dividends or distributions are to be declared on a class of shares they shall be declared and paid according to the amounts paid or credited us paid on the shares of such class outstanding on the record date for such dividend or distribution as determined in accordance with these Articles but no amount paid or credited as paid on a share in advance of calls shall be treated for the purpose of this Article as paid on the share.
- 92. The Directors may deduct from any dividend or distribution payable to any member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.
- 93. The Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock of any other company or in any one or more of such ways and where any difficulty arises in

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regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all members and may vest any such specific assets in trustees as may seem expedient to the Directors.

94. Any dividend, distribution, interest or other monies payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the holder who is first named on the register of members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one or two or more joint holders may give effectual receipts for any dividends, bonuses, or other monies payable in respect of the share held by them as joint holders.

95. No dividend or distribution shall bear interest against the Company.

CAPITALIZATION

96. The Company may upon the recommendation of the Directors by ordinary resolution authorize the Directors to capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital realemption reserve fund) or my sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend and to apply such sum on their behalf in paying up in full unissued shares for allotment and distribution credited as fully paid up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalization, with full power to the Directors to make such provisions as they think fit for the case of shares becoming distributable in fractions (including provisions whereby the benefit of fractional entillements accrue to the Company rather than to the members concerned). The Directors may authorize any person to enter on behalf of all the members interested into an agreement with the Company providing for such capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

BOOKS OF ACCOUNT

- 97. The Directors shall cause proper books of account to be kept with respect to:
 - (a) all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place;
 - (b) all sales and purchases of goods by the Company;

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(c) the assets and liabilities of the Company.

Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

- 98. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members not being Directors and no member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorized by the Directors or by the Company in general meeting.
- 99. The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

AUDIT

- 100. The Company may at any Annual General Meeting appoint an Auditor or Auditors of the Company who shall hold office until the next Annual General Meeting and may fix his or their remuneration.
- 101. The Directors may before the first Annual General Meeting appoint an Auditor or Auditors of the Company who shall hold office until the first Annual General Meeting unless previously removed by an ordinary resolution of the members in general meeting in which case the members at that meeting may appoint Auditors. The Directors may fill any casual vacancy in the office of Auditor but while any such vacancy continues the surviving or continuing Auditor or Auditors, if any, may act. The remuneration of any Auditor appointed by the Directors under this Article may be fixed by the Directors.
- 102. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.
- 103. Auditors shall at the next Annual General Meeting following their appointment and at any other time during their term of office, upon request of the Directors or any general meeting of the members, make a report on the accounts of the Company in general meeting during their tenure of office.

NOTICES

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- Notices shall be in writing and may be given by the Company to any member either personally or by sending it by post, cable, telex or telecopy to him or to his address as shown in the register of members, such notice, if moiled, to be forwarded airmail if the address be outside the Cayman Islands.
- Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and to have been effected at the expiration of sixty hours after the letter containing the same is posted as aforesaid.
- (b) Where a notice is sent by cable, telex or telecopy service of the notice shall be deemed to be effected by properly addressing and sending such notice through a transmitting organization, and to have been effected on the day the same is sent as aforesaid.
- 106. A notice may be given by the Company to the joint holders of record of a share by giving the notice to the joint holder first named on the register of members in respect of the share.
- A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a share or shares in consequence of the death or bankruptcy of a member by sending it through the post as aforesaid in a pre-paid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bunkruptcy had not occurred.
- Notice of every general meeting shall be given in any manner hereinbefore authorized to:
- (a) every person shown as a member in the register of members as of the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the register of members.
- every person upon whom the ownership of a share devolves by reason of his being a legal personal representative or a trustee in bankruptey of a member of record where the member of record but for his death or bankruptey would be entitled to receive notice of the meeting; and

No other person shall be entitled to receive notices of general meetings.

WINDING UP

109. If the Company shall be wound up the Liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Stanute, divide amongst the members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) und may for such purpose set such value as he

deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The Liquidator may with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the Liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other securities whereon there is any liability.

110. If the Company shall be wound up, and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital paid up at the commencement of the winding up, on the shares held by them respectively. This Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions.

DURATION OF THE COMPANY

- 111. Notwithstanding any other provision contained elsewhere in these Articles the Company shall be taken to have commenced voluntary winding-up and dissolution automatically and without further action on the part of the Company or its members, upon the happening of any of the following events:
 - (a) when the period fixed for the duration of the Company by Clause 8 of the Memorandum of Association expires;
 - upon the passing of a Special Resolution that the Company be wound-up voluntarily;
 - (c) upon the expiry of a period of 90 days starting on
 - the death, insanity, bankruptcy, dissolution, liquidation (whether compulsory or voluntary), withdrawal, retirement or resignation of any Member;
 - (ii) the redemption, repurchase or cancellation of all of the shares of a member; or
 - (iii) the occurrence of any event which under the Memorandum of Association of the Company or these Articles terminates the membership of a member

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unless there remain at least two members and the Company is continued in existence by a unanimous written resolution of those members pursuant to amended Articles adopted during that 90 day period;

(d) where the death, insanity, bankruptcy, dissolution, liquidation (whether compulsory or voluntary), withdrawal, retirement or resignation of any member as aforasid causes the commencement of the winding-up and dissolution of the Company in accordance with the Company's Memorandum and Articles of Association and Section 195D of the Companies Law (Revised) of the Cayman Islands, the directors at the time of such commencement and without further action shall become the liquidators of the Company.

INDEMNITY

The Directors and Officers for the time being of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and their heirs, executors, administrators and personal representatives respectively shall be indemnified out of the assets of the Company from and against all actions, proceedings, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done or omitted in or about the execution of their dutry in their respective offices or trusts, except such (if any) as they shall incur or sustain by or through their own wilful neglect or default respectively and no such Director, Officer or trustee shall be answerable for the acts, receipts, neglects or defaults of any other Director, Officer or trustee or for joining in any receipt for the sake of conformity or for the solvency or honesty of any banker or other persons with whom any monies or effects belonging to the Company may be lodged or deposited for safe custody or for any insufficiency of any security upon which any monies of the Company may be invested or for any other loss or damage due to any such cause as aforesaid or which may happen in or about the execution of his office or trust unless the same shall happen through the wilful neglect or default of such Director, Officer or trustee.

FINANCIAL YEAR

113. Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

AMENDMENTS OF ARTICLES

114. Subject to the Statute, the Company may at any time and from time to time by special resolution after or amend these Articles in whole or in part.

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TRANSFER BY WAY OF CONTINUATION

115. If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

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DATED the day of

.199.

Director
Trident Nominees (Cayman) Ltd.
P.O. Box 847, Grand Cayman
Nominee Company

Director Trident Secretaries (Cayman) Ltd. P.O. Box 847, Grand Cayman Nomince Company

Witness to the above signatures

I. Registrar of Companies in and for the Cuyman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Memorandum of Association of this Company duly incorporated on the day of , 199.

REGISTRAR OF COMPANIES -

484 233 9629

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P. 01/07



FAX MEMORANDUM

10	Mr. Eduardo Andrade	DATE	January 13, 2000
COMPANY	Whitman Breed	TIME	9:58 AM
FAX NO	1 212 351 3131	PAGES] including cover
***	Trident Trust Company (Cayman) Limited	REF. WO	TRIABD
FAX NO	(345) 949-0881		

Dear Mr. Andrade

EBARGE, LLC

We are pleased to advise that the Registrar of Companies has confirmed that the captioned Delaware LLC qualifies for registration as an exempted company in the Cayman Islands, without the need to amend it for share capital. Following registration in Cayman the company would still have to adopt a form of Memorandum & Articles of Association similar to that emailed to you previously.

I attach an extract of the Companies Law indicating the requirements for registration. Once you are ready to proceed we will prepare the necessary documents.

Kind regards Yours sincerely

TRIDENT TRUST COMPANY (CAYMAN) LIMITED

M. CHRISTINE ROSE-SNIVTH Manager - Corporate Services

The original wilk — D follow by mail — D follow by courier

This facilities harstristion is intended any for the use of the addresses and may contain confidential information, if you are not the intended recibient, you are hereby notified that any use or dissemination of this communication is sticity prohibited. If you receive this transfers in error, please notify us immodiately by to opnone so that we can arrange for the return of the documents to us of no cost to you.

TRIDENT TRUST COMPANY (CAYMAN) LTD.

One Capital Place, P.O. 30x 847, Grand Coymon, Caymon Islands, B.W.I.

Tel (345) 949-0860 + fax (345) 949-0881 + Email caymon@hidenthust.com + www.hidenthust.com

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PAGE. 01

PART XI - General

Fees in lieu of other provisions

218. (1) Wherever this Law provides for or requires the filing of any document, notice or return with the Registrar or the issue of any certificate or the Registrar provides a copy of any document in respect of which no fee is elsewhere specifically provided, the following fees shall be payable-

(a)	filing any document	\$18	20
(b)	issuing any certificate	\$18	30
(c)	providing a copy of any document (per folio of 72 words).	\$18	30

(2) The Registrar may, in his discretion, extend the time within which any thing is required to be done by this Law, whether the time prescribed therefor has expired or not, and waive any penalties or prosecutions prescribed under this

JRA - Oxpress fees.
PART XII-Transfer by Way of Continuation

Application for

219. (1) A body corporate incorporated, registered or existing with limited liability and a share capital under the laws of any jurisdiction outside the Islands (which body corporate is in this Part referred to as a "registrant") may apply to the Registrar to be registered by way of continuation as an exempted company limited by shares under this Law.

- (2) The Registrar shall register a registrant if-
 - (a) the registrant is incorporated, registered or existing in a jurisdiction whose laws permit or do not prohibit the transfer ofthe registrant in the manner hereinafter provided in this Part (hereinafter in this section referred to as "a relevant jurisdiction");
 - (b) the registrant has paid to the Registrar a fee equal to the fee payable on the registration of an exempted company under section 26;
- (d) Dolaware Cached (c) the registrant has delivered to the Registrar the documents listed in paragraphs (a) and (b) of section 203(1) (in this section referred to as "the charter documents");

 (b) list d durabus (d) the name of the registrant is acceptable to the Registrar under section 30 or the registrant has undertaken to change the name to an acceptable name within sixty days of registration of the registrant has undertaken to change the name to an acceptable name within sixty days of registrations.

or equivalent (c) the registrant has filed with the Registran notice of the address of its proposed registrend office in the Islands;

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- (f) the registrant has filed with the Registrar a declaration signed by a director of the registrant that the operations of the registrant will be conducted mainly outside the Islands;
- (g) no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the registrant in any jurisdiction;
- (h) no receiver, trustee, administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the registrant, its affairs or its property or any part thereof,
- no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the registrant are and continue to be suspended or restricted;
- the registrant is able to pay its debts as they fall due;
- the application for registration is bona fide and not intended to defraud existing creditors of the registrant;
- the registrant has delivered to the Registrar an undertaking signed by a director of the registrant that notice of the transfer has been or will be given within twenty-one days to the secured creditors of the registrant;
- (m) any consent or approval to the transfer required by any contract or undertaking entered into or given by the registrant has been
- obtained, released or waived, as the case may be;
 (n) the transfer is permitted by and has been approved in accordance with the charter documents of the registrant;
- the laws of the relevant jurisdiction with respect to transfer have
- been or will be complied with; the registrant is constituted in a form or substantially a form which could have been incorporated as an exempted company limited by shares under this Law;
- the registrant will, upon registration hereunder, cease to be incorporated, registered or exist under the laws of the relevant iurisdiction:
- (r) the registrant, if it is (or will when registered by way of continuation be) prohibited from carrying on its business in or from within the Islands unless licensed under any law, has applied for and obtained the requisite licence; and
- (s) the Registrar is not aware of any other reason why it would be against the public interest to register the registrant.
- (3) Paragraphs (g), (h), (i), (j), (k), (m), (n), (o) and (q) of subsection (2) shall be satisfied by filing with the Registrar a voluntary declaration or affidavit

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PAGE. 03

of a director of the registrant to the effect that, having made due enquiry, he is of the opinion that the requirements of those paragraphs have been met, and which declaration or affidavit shall include a statement of the assets and liabilities of the registrant made up to the latest practicable date before making the declaration or

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- (4) Whoever, being a director, makes a declaration or affidavit under subsection (3) without reasonable grounds therefor is guilty of an offence and liable on summary conviction to a fine of fifteen thousand dollars and to imprisonment for five years.
- (5) Without prejudice to Part IX, a registrant may apply to be provisionally registered by way of continuation as an exempted company limited by shares under this Law.
 - (6) The Registrar shall provisionally register a registrant if-
 - (a) the registrant complies with the requirements of paragraphs (a), (c), (e), (f), (g), (h), (i), (j) and (p) of subsection (2); and
 - (b) the registrant has paid to the Registrar a fee of one thousand five hundred dollars.
- (7) Paragraphs (g), (h), (i), (j) and (p) of subsection (2) shall be satisfied by filing with the Registrar a voluntary declaration or affidavit of a director of the registrant to the effect that, having made due enquiry, he is of the opinion that the requirements of those paragraphs have been met, and subsection (4) shall, mutatis mutandis apply with respect to such declaration or affidavit.
- (8) The Registrar shall register a registrant which is provisionally registered under this Part upon the requirements of paragraphs (b), (d), (k), (l), (m), (n), (o), (q), (r) and (s) of subsection (2) being met, as to which subsection (3) shall, mutatis mutandis, apply where relevant.
 - (9) A registrant which is provisionally registered shall-
 - (a) within sixty days after registration, deliver, to the Registrar details of any changes in the information required by paragraphs (c) and (e) of subsection (2);
 - (b) file with the Registrar in January of each year following provisional registration, a voluntary declaration or affidavit in the form described in subsection (7); and
 - pay to the Registrar in January of each year following provisional registration, a fee of one thousand dollars.

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Companies Law (1998 Revision)

(10) A registrant which is provisionally registered and which fails to comply with paragraphs (b) and (c) of subsection (9) by 30th June in such year shall cease to be provisionally registered but without prejudice to being provisionally registered anew hereunder upon complying with the requirements

220. (1) Upon registration of a registrant under this Part, the Registrar shall Registration under this large and the large and issue a certificate under his hand and seal of office that the registrant is registered by way of continuation as an exempted company and specifying the date of such registration, and section 27(3) shall apply, mutatis mutandis, to such certificate.

- (2) The Registrar shall enter in the register of companies the date of registration of the registrant and, to the extent possible with respect to a registrant, particulars of the matters specified in paragraphs (a) to (h) of section 26(3).
- (3) From the date of registration of the registrant it shall continue as a body corporate for all purposes as if incorporated and registered as an exempted company under and subject to this Law the provisions of which shall apply to the company and to persons and matters associated therewith as if such company were so incorporated and registered and such company shall have, but without limitation to the generality of the foregoing-
 - (a) the capacity to perform all the functions of an exempted company;
 - (b) the capacity to sue and to be sued;
 - (c) perpetual succession; and
 - (d) the power to acquire, hold and dispose of property,

and the members of the company shall have such liability to contribute to the assets of the company in the event of its being wound up under this Law as is provided therein:

Provided always that section 219 and this section shall not operate-

- (a) to create a new legal entity;(b) to prejudice or affect the identity or continuity of the registrant as previously constituted;
- (c) to affect the property of the registrant;
 (d) to affect any appointment made, resolution passed or any other act or thing done in relation to the registrant pursuant to a power conferred by any of the charter documents of the registrant or by the laws of the jurisdiction under which the registrant was previously incorporated, registered or existing;

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(e) except to the extent provided by or pursuant to this Part, to affect the rights, powers, authorities, functions and liabilities or obligations of the registrant or any other person; or

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- (f) to render defective any legal proceedings by or against the registrant and any legal proceedings that could have been continued or commenced by or against the registrant before its registration hereunder may, notwithstanding the registration, be continued or commenced by or against the registrant after registration.
- (4) Upon provisional registration of a registrant under this Part the Registrar shall issue a certificate under his hand and seal of office that the registrant is provisionally registered by way of continuation as an exempted company and specifying the date of such provisional registration.
- (5) The Registrar shall enter in a register maintained for the purpose the date of provisional registration and name of the registrant.
- (6) If a registrant which is provisionally registered under this Part is registered pursuant to section 219(2) it shall automatically cease to be provisionally registered and the Registrar shall cancel such provisional registration.
- (7) Subsection (3) shall not apply to a registrant which is provisionally registered unless and until it is registered under section 219(2), and nothing in this section shall be construed as enabling a registrant which is provisionally registered to carry on business within the Islands unless it complies with the requirements of Part IX.



- 221. (1) A registrant shall, within ninety days of registration by special resolution passed in accordance with this Law, make such amendments, alterations, modifications, variations, deletions and additions (in this section referred to as "changes"), if any, to its charter documents as are necessary to ensure that they comply with the requirements of this Law as they relate to an exempted company.
 - (2) Within ninety days of registration, the registrant-
 - (a) may, instead of passing a special resolution making the changes required by subsection (1); or
 - (b) shall, whether or not it has passed such a special resolution making, or purporting to make, such changes, if the Registrar so

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Companies Law (1998 Revision)

apply to the Court for an order approving such changes and the Court, if satisfied that the changes (with such modifications, if any, as it considers appropriate) are necessary to ensure that the charter documents of the registrant comply with the requirements of this Law, may approve them accordingly and make such consequential orders as it thinks fit. Changes, when so approved, shall take effect as if they formed part of the charter documents.

- (3) A copy of the special resolution passed under subsection (1) or of the order of the Court made under subsection (2) shall be filed with and registered by the Registrar whose certificate of registration thereof shall be conclusive evidence that the charter documents comply with the requirements of this Law.
- (4) After registration of the registrant and until such time as the charter documents of the registrant are changed to comply with the requirements of this Law or to the extent they cannot be changed so to comply, this Law shall prevail.
- (5) The provisions of the charter documents of a registrant which would, if the company had been incorporated under this Law, have been required by this Law to be included in its memorandum of association shall be deemed to be the registered memorandum of association of the company and the provisions of the charter documents that do not by virtue of the foregoing constitute the registered memorandum of association shall be deemed to be the registered articles of association of the company, and the company and its members shall be bound thereby accordingly.
- 222. Where a registrant is also registered as a foreign company under Part IX it shall, upon registration under Part XII, automatically cease to be registered under Part IX and the Registrar shall cancel such registration. shall, upon registration under Part XII, automatically cease to be registered under Part IX and the Registrat shall cancel such registration.

223. The Registrar shall forthwith give notice in the Gazette of the registration of registration of a registrant under this Part, the jurisdiction under whose laws the registrant was Gazette a registrant under this Part, the jurisdiction under whose laws the registrant was previously incorporated, registered or existing and the previous name of the registrant if different from the current name.

224. (1) An exempted company incorporated and registered with limited liability and a share capital under this Law, including a company registered by including a company registered by way of continuation under this Part, which proposes to be registered by way of reviewed under this Part. continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Islands (hereinafter called an "applicant") may apply to the Registrar to be de-registered in the Islands.

(2) The Registrar shall so de-register an applicant if-

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EBARGE, LLC WRITTEN CONSENT OF THE SOLE MEMBER TO ACTION IN LIEU OF MEETING

Pursuant to the provisions of Section 18-404(d) of the Limited Liability Company Act of the State of Delaware and consistent with the Certificate of Formation and Operating Agreement of EBARGE, LLC, a Delaware limited liability company (the "Company"), the undersigned, the directors of ML IBK Positions, Inc., the sole member of the Company, hereby consent to the adoption of the following resolutions and to the taking of the actions contemplated thereby, in each case, with the same force and effect as if presented to and adopted at a meeting of the member:

REGISTRATION BY WAY OF CONTINUATION

IT IS NOTED that the Company is registered as a limited liability company pursuant to the provisions of the Limited Liability Company Act of the State of Delaware under Section 18-201 and whereas it is considered to be in the best interest of the Company, IT IS RESOLVED that an application be made to the Registrar of Companies in the Cayman Islands for registration by way of continuation of the Company to the Cayman Islands under the provisions of Section 219-223 of Part XII of the Companies Law (1998 Revision).

IT IS FURTHER RESOLVED that the Memorandum and Articles of Association attached hereto as Attachment A be and hereby are approved and adopted as the Memorandum and Articles of Association of the Company effective upon the registration in the Cayman Islands as an exempted company limited by shares.

IT IS FURTHER RESOLVED that ML IBK Positions, Inc. is appointed as sole director of the Company.

IT IS FURTHER RESOLVED that any director of the member company and/or Trident Trust Company (Cayman) Limited be, and hereby is, authorized to execute and deliver, or cause to be executed and delivered, in the name and on behalf of the Company, and under its corporate seal or otherwise, a Declaration of Operations, substantially in the form of Attachment B hereto, a Notice of Transfer, substantially in the form of Attachment C hereto, a Declaration pursuant to Section 219 (2)(f) of the Companies Law of the Cayman Islands, substantially in the form of Attachment D hereto, a Certificate of Transfer, substantially in the form of Attachment E hereto and any and all certificates, agreements, authorizations and other instruments and documents, and to take any and all actions and to do any and all things as shall be necessary or appropriate to carry out the intent and purposes of the foregoing resolution.

- 1 -

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IN WITNESS WHEREOF, we have hereunto set our hands as of the $14\frac{14}{12}$ day of February, 2000.

Mark F. McAndrews

Joseph S. Valenti

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-2-

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TOTAL P.03 PAGE.03

FEB 14 '00 18:15

FERRILL LYNCH 212 445 3201 . F. 647 63 IN WITNESS WHEREOF, we have hereinto set our hands as of the 14th day of February, 2000. Gary M. Carlin Joseph S Valenti 422596-y2 0064428-0053 MS 24519

FEB 14 '00 18:15

212 449 3207

PAGE.04

IN WITNESS WHEREOF, we have hereunto set our hands as of the $19\frac{\pm k}{2}$ day of February, 2000.

Gary M. Carlin

Mark F. McAndrews

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-2-

MS 24520

FEB 14 '00 18:15

212 889 7207

TOTAL P.05

Our ref: EBA-A

February ,2000

The Registrar of Companies Tower Building Grand Cayman

Dear Sir

EBARGE, LLC

Pursuant to Section 219(2)(I) of Part XII of the Companies Law (1998 Revision), I Joseph S. Valenti, hereby undertake that notice of the transfer by way of continuation of EBARGE, LLC to the Cayman Islands has been or will be given within twenty-one days of such application to the Registrar of Companies to the secured creditors of the Company.

EBARGE, LLC,

By: ML IBK Positions, Inc., its sole

Name: Joseph S. Valenti

Tiple: Director

A statement of the assets and liabilities of the company made up to the latest practicable date is attached.

EBARGE, LLC,

By: ML IBK Positions, Inc., its sole

Name: Joseph S. Valenti

SWORN AND DECLARED before me at NEW 10RK, NA this 3rd day of FEBRUARY 2000.

Notary Public

IGNATHEA BARRETT
Notary Public. State of New York
No. 018A4853814
Qualified in Westchester County
Commission Expires Feb. 17, 45,200

-2-

426646-v1 0064428-0053

IN THE MATTER OF THE COMPANIES LAW SECTION 219 (3) AND IN THE MATTER OF EBARGE, LLC VOLUNTARY DECLARATION

I, Joseph S. Valenti, make oath and say as follows: -

- That I am the sole Director of the said Company which is applying for registration by way
 of continuation under the Companies Law, Cap. 219-223, of the laws of the Cayman
 Islands.
- I am of the opinion that having made due inquiry, the requirements of the ollowing paragraphs (g), (h), (i), (j), (k), (m), (n), (o) and (q) of subsection (2) of Section 2 9 of the Companies Law have been met, i.e.:
 - (g) no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the registrate in any jurisdiction;
 - (h) no receiver, trustee or administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the registrant, its affairs or its property or any part thereof;
 - no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the registrant are and continue to be suspended or restricted;
 - (i) the registrant is able to pay its debts as they fall due;
 - the application for registration is bone fide and not intended to defraud existing creditors of the registrant;
 - any consent or approval to the transfer required by any contract or undertaking entered into or given by the registrant has been obtained, released or wived, as the case may be;
 - the transfer is permitted by and has been approved in accordance with the charter documents of the registrant;
 - the laws of the relevant jurisdiction with respect to transfer have been or will be complied with;
 - (q) the registrant will upon registration hereunder cease to be incoporated, registered or exist under the laws of the relevant jurisdiction;
- That we make this Declaration pursuant to Section 219(3) of the Companies Law of the Cayman Islands to support the application of the said Company to be registered by vay of continuation to the Cayman Islands.

426646-v1 0064428-0053

IN THE MATTER OF THE COMPANIES LAW SECTION 219 (2)(f) AND IN THE MATTER OF EBARGE, LLC DECLARATION

I, Joseph S. Valenti, make oath and say as follows: -

- That we propose to be a Director of the said Company which is applying for registration by way of continuation under the Companies Law, Cap. 219-223, of the laws of the Cayman Islands.
- That the operation of the said Company will be conducted mainly outside the Cayman Islands
- That we make this Declaration pursuant to Section 219 (2)(f) of the Companies Law of the Cayman Islands to support the application of the said Company to be registered by way of continuation as an Exempted Company.

EBARGE, LLC,

Member

By: ML IBK Positions, Inc., its sole

y JUNG

Name: Joseph S. Valenti Title: Director

SWORN AND DECLARED before me at NEw YORK, Nothis 3 day of FEBRUARY

2000.

Notary Public

IGNATHEA BARRETT Notary Public, State of New York No. 018A4253814 Qualified in Westcrester County Commission Expires Feb. 17,

426651-v1 0064428-0053

** TX STATUS REPORT ** AS DF FEB 15 '80 18/27 WBAM NYC DATE TIME TO/FROM 82/15 18:24 1345949881 MODE MIN/SEC PO EC-S 82'86" 885 PGS CMD# STATUS PGS 226 DK ; WHITMAN BREED ABBOTT & MORGAN LLP 200 PARK AVENUE . NEW YORK, NY 10166 . PHONE: 212-351-3000 . FAX: 212-351-3131 FAX TRANSMITTAL SHEET

FROM		PHONE NUMBER	ROOM NUMBER
Eduardo N.T. Andrade		212-351-324	2361
DATE			197
February 15, 2000			
TOTAL NUMBER OF PAGES (INCI	LUDING THIS PAGE):		
То	COMPANY	Fax Number	PHONE NUMBER
Sabina A. Jerrybandan	Trident Trust Company (Cayman) Ltd.	(345) 949-0881	(345) 949-0880

COMMENTS:

At long last, attached please find a copy of the executed Board Resolutions for Ebarge, LLC. Please let me know if there is anything else we have to do in order to get Ebarge registered by way of continuation. Once you inform me that that you are going to have Ebarge re-damiciled, I will have the Certificate of Transfer filed in Delaware (it is already prefiled for easy filing). I should be able to get some kind of Certificate from Delaware stating that Ebarge is no longer domiciled there which I will send you once I get it.

In addition, have you received payment yet from Enron. I informed them to remit you payment forthwith, so let me know if you have not received it by wire or mail.

Regards,

Eduardo Andrede



IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396

This menser is intended only for the use of the individual or entity to which it is subtraced, and may contain information that is privileged, confidential and except from database under asplicable line. If you are neither the intended recipient, you are neither asplicable line. If you are neither the intended recipient, you wan been provided to an explanation of the provided recipient, you wan bretty nonfided between the usy discremination, distribution or copying of this communication is strittly prohibited. If you have received this communication is more neither than the configuration of the provided that the provided is communication in the provided by a provided that communication is strittly prohibited. If you have received this communication is more neither than the configuration of the provided that the

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200 Park Avenue • New York, NY 10166 • Phone: 212-351-3000 • Fax: 212-351-3131

FAX TRANSMITTAL SHEET

FROM		PHONE NUMBER	ROOM NUMBER
Eduardo N.T. Andrade		212-351-3241	2861
DATE			
February 15, 2000			
TOTAL NUMBER OF PAGES (INC)	.UDING THIS PAGE):		
То	COMPANY	Fax Number	PHONE NUMBER
SABINA A. JERRYBANDAN	Trident Trust Company (Cayman) Ltd.	(345) 949-0881	(345) 949-0880

COMMENTS:

At long last, attached please find a copy of the executed Board Resolutions for Ebarge, LLC. Please let me know At tong tast, attached please find a copy of the executed Board Resolutions for Ebarge, LLC. Please let me know if there is anything else we have to do in order to get Ebarge registered by way of continuation. Once you inform me that that you are going to have Ebarge re-domiciled, I will have the Certificate of Transfer filed in Delaware (it is already prefiled for easy filing). I should be able to get some kind of Certificate from Delaware stating that Ebarge is no longer domiciled there which I will send you once I get it.

In addition, have you received payment yet from Enron. I informed them to remit you payment forthwith, so let me know if you have not received it by wire or mail.

Regards,

Eduardo Andrade

IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396

This message is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If you are neither the intended recipient, nor the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is switchy prohibited. If you have received this communication in error, notify us immediately by elephone, and return the original message to us at the above address by mail. Thank you.

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ML IBK POSITIONS, INC.

Assistant Secretary's Certificate

I, Douglas P. Madden, DO HEREBY CERTIFY that I am a duly appointed Assistant Secretary of ML IBK Positions, Inc., a Delaware corporation (the "Company"), and, in such capacity, am authorized to execute this certificate on behalf of the Company. I DO FURTHER CERTIFY that the following resolutions were duly adopted by unanimous written consent of the Board of Directors of the Company on February 14, 2000 and such resolutions have not been amended or modified and are in full force and effect as of the date hereof:

REGISTRATION BY WAY OF CONTINUATION

IT IS NOTED that the Company is registered as a limited liability company pursuant to the provisions of the Limited Liability Company Act of the State of Delaware under Section 18-201 and whereas it is considered to be in the best interest of the Company, IT IS RESOLVED that an application be made to the Registrar of Companies in the Cayman Islands for registration by way of continuation of the Company to the Cayman Islands under the provisions of Section 219-223 of Part XII of the Companies Law (1998 Revision).

IT IS FURTHER RESOLVED that the Memorandum and Articles of Association attached hereto as Attachment A be and hereby are approved and adopted as the Memorandum and Articles of Association of the Company effective upon the registration in the Cayman Islands as an exempted company limited by shares.

IT IS FURTHER RESOLVED that ML IBK Positions, Inc. is appointed as sole director of the Company.

IT IS FURTHER RESOLVED that any director of the member company and/or Trident Trust Company (Cayman) Limited be, and hereby is, authorized to execute and deliver, or cause to be executed and delivered, in the name and on behalf of the Company, and under its corporate seal or otherwise, a Declaration of Operations, substantially in the form of Attachment B hereto, a Notice of Transfer, substantially in the form of Attachment C hereto, a Declaration pursuant to Section 219 (2)(f) of the Companies Law of the Cayman Islands, substantially in the form of Attachment D hereto, a Certificate of Transfer, substantially in the form of Attachment E hereto and any and all certificates, agreements, authorizations and other instruments and documents, and to take any and all actions and to do any and all things as shall be necessary or appropriate to carry out the intent and purposes of the foregoing resolution.

Marinaro/mise/certificate

IN WITNESS WHEREOF, I have executed this Certificate on this $16^{\rm th}$ day of February 2000.

Marinaro/misc/certificate

MS 24528

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212 449 3207

PAGE.03

EBARGE, LLC

CERTIFICATE OF ASSISTANT SECRETARY

I, Douglas P. Madden, acting in my capacity as Assistant Secretary of ML IBK Positions, Inc., ("ML IBK"), the sole director and sole member of Ebarge, LLC, a Delaware limited liability company (the "Company"), DO HEREBY CERTIFY that:

 The persons whose respective signatures are stated on the following page, are duly appointed and qualified on this day to hold the office set forth opposite his name, and that the signatures set forth below are the genuine signature of such persons.

430109-v1 0064428-0053

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PAGE.04

Title Name Signature Gary M. Carlin Director Mark F. McAndrews Director Joseph S. Valenti Director IN WITNESS WHEREOF, I have executed this Certificate on this 16th day of February

ML IBK Positions, Inc.

Name: Douglas P. Madden Title: Assistant Secretary

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-2-

MS 24530

*** TOTAL PAGE 83 *** TOTAL P.05 87 PAGE 85

FEB 16 '00 16:55

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WHITMAN BREED ABBOTT & MORGAN LLP

200 Park Avenue • New York, NY 10166 • Phone: 212-351-3000 • Fax: 212-351-3131

FAX TRANSMITTAL SHEET

From		PHONE NUMBER	ROOM NUMBER
EDUARDO N.T. ANDRADE		212-351-3241	2861
DATE			14
February 16, 2000			To agrammas (1)
TOTAL NUMBER OF PAGES (INCI	.uding this page):		
То	COMPANY	FAX NUMBER	PHONE NUMBER
SABINA A. JERRYBANDAN	Trident Trust Company (Cayman) Ltd.	(345) 949-0881	(345) 949-0880

COMMENTS:

Attached please find the following executed documents pertaining to the re-domiciling of Ebarge, LLC:

- (i) Assistant Secretary's Certificate, certifying as to the authenticity of the Board resolutions; and
- (ii) Certificate of Assistant Secretary, certifying as to the incumbency of the directors of ML IBK Positions, Inc.

The originals of these documents will be arriving via DHL tomorrow from Merrill Lynch. If the body of either of these documents is deficient, please let me know and I will have the body of such certificate edited. In addition, I should be able to fax you a copy of the Certificate of Incorporation of ML IBK Positions, Inc. by tomorrow.

Regards,

Eduardo Andrade

IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396

This message is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If you are neither the intended recipient, nor the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any discrimination, distribution or copying of this communication is sarietly prohibited. If you have received this communication in error, notify us internedually by elephone, and return the original message to us at the above address by mail. Thank you.

30.299-v1 0064428-0053

WHITMA: BREED ABBOTT & MORJAN LLP

200 Park Avenue • New York, NY 10166 • Phone: 212-351-3000 • Fax: 212-351-3131

FAX TRANSMITTAL SHEET

FROM	•	PHONE NUMBER	ROOM NUMBER
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DATE		-44.	
February 17, 2000		4 M2	1989 A. Wat
TOTAL NUMBER OF PAGES (INCI	.UDING THIS PAGE): 13		
То	COMPANY	Fax Number	PHONE NUMBER
Sabina A. Jerrybandan	Trident Trust Company (Cayman) Ltd.	(345) 949-0881	(345) 949-0880

COMMENTS:

Attached please find the Certificate of Incorporation for ML IBK Positions, Inc. I now hope that you have all the requested materials and that we can finally get Ebarge re-domiciled today. The reason I ask is that I am going on vacation next week so I really do have to have this wrapped up now. Please let me know when you have the documents filed so that I can have the Delaware Certificate of Transfer filed.

Regards,

Eduardo Andrade

IF YOU HAVE NOT RECEIVED THE CORRECT NUMBER OF PAGES CALL (212) 351-3396

This message is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and exempt from fischosure under applicable law. If you are neither the intended recipient, nor the employee or agent responsible for delivering the message to the intended recipient, you are verby notified that any distermination. distribution or copying of this communication is strictly prohibited. If you have received this communication in error, notify us mendeately by telephone, and return the original message to us at the above address by mail. Thank you.

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Feb-18-00 1:35;

Page 2

State of Delaware Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "ML INTERFUNDING,



2244576 8100 001078442

AUTHENTICATION:

DATE: 02-16-00

Sent By: INCORPORATING SERVICES;

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Page 3

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Oct 23.90 13:48 P.02

STATE OF DELAWARE SECRETARY OF STATE DIVISION OF CORPORATIONS FILED 02:30 PM 10/23/1990 720296137 - 2244576

CERTIFICATE OF ISCORPORATION

of

ML ISTERIUSDING, INC.

ARTICLE I

The name of the Corporation is ML Interfunding, Inc.

ARTICLE II

Registered Office and Registered Agent

The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent is The Corporation Trust Company,

ARTICLE III

Corporate Purposes

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

Authorised Shares

Section 1. Sharps Authorized. The total number of shares of all classes of capital stock that the Corporation is authorized to issue is two thousand (2,000) shares, of which one thousand (1,000) shares shall be Common Stock, par value ten dollars (\$10.00) per shares ("Common Stock") and one thousand (1,000) shares shall be Preferred Stock, par value ten dollars (\$10.00) per share ("Preferred Stock").

Section 2. <u>Rights and Restrictions of Preferred Stock.</u> Authority is bereby expressly vested in the Board of Directors of the Corporation, subject to the provisions of this Article IV and to the limitations prescribed by law, to suthorize the issue from time to time of one or more series of Preferred Stock and with respect to

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Page 4

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each such series to fix by resolution or resolutions the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or re-strictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the de-termination or fixing of the following:

- (a) The designation of such series.
- (b) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends psyable on any other class or classes or series of the Corporation's capital stock, and whether such dividends shall be cumulative or non-cumulative.
- (c) Whether the shares of such series shall be subject to redemption for cash, property or rights, including securities of any other corporation, by the Corporation at the option of either the Corporation or the holder or both or upon the hsp-pening of a specified event, and, if made subject to any such redemption, the times or events, prices and other terms and conditions of such redemption.
- (d) The terms and amount of any sinking fund provided for the purchase or redamption of the shares of such series.
- (e) Nhether or not the shares of such series shall be convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares of any other class or classes or of any other series of the same or any other class or classes of the Corporation's capital stock and, if provision be made for conversion or exchange, the times or events, prices, rates, adjustments, and other terms and conditions of such conversions or exchanges.
- (f) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.
- (g) The rights of the holders of the shares of such series upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation.
- (h) The provisions as to voting, options and/or other special rights and preferences, if any.

Section 3. <u>Rights and Restrictions of Common Stock</u>. The powers, preferences, rights, qualifications, limitations or restrictions thereof in respect to the Common Stock are as follows:

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- (s) The Common Stock is junior to the Preferred Stock and is subject to all powers, rights, privileges, preferences and priorities of the Preferred Stock as herein or in any resolu-tion or resolutions adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of Sec-tion 2 of this Article.
- (b) The Common Stock shall have voting rights for the election of directors and for all other purposes, each holder of Common Stock being entitled to one vote for each share thereof held by such holder, except as otherwise required by law.
- Section 4. Increase or Degrams in Amount of Authorized Shares. The number of suthorized shares of any class or classes of capital stock of the Corporation may be increased or decreased by an amendment to this Certificate of Incorporation authorized by the affirmative vote of the holders of a majority of the shares of the Common Stock outstanding and entitled to vote thereon and, except as expressly provided in the Certificate of Incorporation or in any resolution or resolutions adopted by the Board of Directors pursuant to the authority expressly vested in the Yelferred Stock and except as otherwise provided by law, no vote by holders of capital stock of the Corporation other than the Common Stock shall be required to express such action.
- Section 5. Sherem Entitled to More or Less than One Yota. If, on any metter, any class or series of the Corporation's capital stock shall be entitled to more or less than one vote for any shere, every reference in this Certificate of Incorporation and in any relevant provision of law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

ARTICLE V

Corporate Existence

The Corporation is to have perpetual existence.

ARTICLE VI

Powers of Board of Directors

In furtherance and not is limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized:

(e) To make, alter, smend or repeal the By-Laws, except as otherwise expressly provided in any By-Law made by the holders of the capital stock of the Corporation entitled to vote there-

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Page 6

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on. Any By-Law may be altered, smended or repealed by the holders of the capital stock of the Corporation entitled to vote thereon at any annual meeting or at any special meeting called for that purpose.

- (b) To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.
- (c) To determine the use and disposition of any surplus and net profits of the Corporation, including the determination of the amount of working expital required, to set spart out of any of the funds of the Corporation, whether or not swallable for dividends, a reserve or reserves for any proper purpose and to aboliab any such reserve in the manner in which it was crested.
- (d) To designate, by resolution passed by a majority of the whole Board of Directors, one or more committees, each con-mittee to consist of two or more directors of the Corporation, which, to the extent provided in the resolution designating the committee or in the By-Laws of the Corporation, shall, subject to the limitations prescribed by law, have and may exercise all the powers and authority of the Board of Directors in the man-agement of the business and affairs of the Corporation and may suthorize the seal of the Corporation to be affixed to all papers that may require it. Such committee or committees shall have such name or names as may be provided in the By-Laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.
- (e) To adopt such pension, retirement, deferred compensation or other employes benefit plans or provisions as may, from time to time, be approved by it, providing for pensions, retirement income, deferred compensation or other benefits for officers or employees of the Corporation and of any corporation that is a subsidiary of the Corporation, or any of them, in consideration for or in recognition of the services rendered by such officers or employees or as an inducement to future efforts. No such plan or provision, which is not at the time of adoption unreasonable or unfair, shell be invalidated or in any may affected because any director shall be a beneficiary thereunder or shall vote for any plan or provision under which he may benefit.
- (f) To exercise, in addition to the powers and authorities heraimbefore or by law conferred upon it, any such powers and authorities and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the pro-visions of the laws of the State of Delaware and of the Certif-icate of Incorporation and of the By-Laws of the Corporation.

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ARTICLE VII

Limitation of Directors' Liability; Indemnification by Corporation

Section 1. Limitation of Directors' Limbility. (a) No director of the Corporation shall be personally limble to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except, to the extent provided by applicable law, for liability (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or emissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is hereafter manualed to authorize corporate action further limiting or eliminating the personal liability of director of the Corporation shall be limited or eliminated to the full extent permitted by the Delaware General Corporation Law as so smended from time to time.

(b) Beither the amendment nor repeal of this Section 1, nor the adoption of any provision of the Certificate of Incorporation inconsistant with this Section 1, shall eliminate or reduce the effect of this Section 1, in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 1, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

Bection 2. Indemnification by Corporation. (a) The Corporation shall indemnify may person who is or was a director or officer of the Corporation, with respect to actions taken or omitted by such person in any capacity in which such person serves the Corporation, to the full extent authorized or permitted by law, as now or hereafter in effect, and such right to indemnification shall continue so to a person who has cessed to be a director or officer, as the case may be, and shall inurs to the benefit of such person's heirs, excutors and personal and legal representatives; provided, homever, that, except for preceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any person in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or pert thereof) was authorized in advance, or unanimously consented to, by the Board of Directors of the Corporation.

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- (b) Directors and officers of the Corporation shall have the right to be paid by the Corporation expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition.
- (c) The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation.
- (d) The rights to indemnification and to the advancement of expenses conferred in this Section 2 shell not be exclusive of any other right that any person may have or hereafter acquire under this Certificate of Incorporation, the by-lww, any statute, agreement, your of stockholders or disinterested directors, or otherwise.
- (e) Any repeal or modification of this Section 2 by the stock-holders of the Corporation shall not adversely affect any rights to indemnification and to advancement of expenses that any person may have at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

ARTICLE VIII

Reservation of Right to Amend Certificate of Incorporation

The Corporation reserves the right to amond, alter, change or repeal any provisions contained in this Certificate of incorporation in the amoner now or becamine representable by law, and all the provisions of this Certificate of Incorporation and all rights and powers conferred in this Certificate of Incorporation on stockholders, directors and officers are subject to this reserved power.

ARTICLE IX

The name and mailing address of the incorporator is Dauna R. Williams, 250 Yesey Street, New York, New York 10281-1334.

For the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, the undersigned hereby declares and certifies that the facts berein stated are true; and accordingly has hereunto set her hand this lath day of occapior, 1990.

Delaw R. Williams
Incorporator**

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- 6 -

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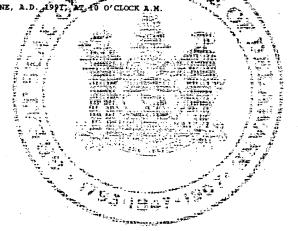
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Page 9/13

State of Delaware Office of the Secretary of State

PAGE

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENIMENT OF "ML INTERFUNDING, INC." CHANGING ITS NAME FROM "ML INTERFUNDING, INC. TO "ML IEK POSITIONS, INC.", FIRED THE THIS OFFICE OR HE TOURTEENTH DAY OF JUNE, A.D. 1997, AT 10 O'CLOCK A.M.



2244576 8100 001078442

Edward J. Freel, Secretary of State
0261363
AUTHENTICATION:
02-16-00

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Page 10/13

STATE OF DELAMARE SECRETARY OF STATE DEVISION OF COMPORATIONS FILED 10:00 AN 06/14/1991 721155022 - 2244576

CERTIFICATE OF AMENIMENT

OF

CERTIFICATE OF INCORPORATION

OF

ML INTERFUEDING, INC.

ML Interfunding, Inc. a corporation organized and existing under the laws of the State of Delaware, DOES MERKERY CERTIFY:

First: That the Board of Directors of the Corporation. on April 22, 1991, at a meeting duly convaned, adopted a resolution proposing and declaring advisable an amendment to the Cortificate of Incorporation of the Corporation and directing that such amendment be submitted to the Mext Meeting of Stockholders of the Corporation called, smong other purposes, for the consideration thereof. Article I of the Certificate of Incorporation, as proposed to be amended by such resolution, is as follows:

Name

The name of the Corporation is ML IBK Positions, Inc.

Second: That on April 23, 1991 the next Meeting of Stockholders of the Corporation was duly held, and, pursuant to the aforementioned resolution of its Board of Directors, the foregoing proposed amondment was submitted to the stockholders of the Corporation entitled to vote thereon, such amendment being submitted to and voted upon by the holders of shares of Common Stock, the only class of stock of the Corporation outstanding and entitled to vote, at which meeting the foregoing amendment was adopted by the affirmative vote of a majority of all outstanding shares of Common Stock.

Third: That the foregoing amendment has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delawara.

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Page 11/13

IN WITHESS MERREOF, the Corporation has caused this certificate to be signed by its President, with its corporate seal to be hereunto duly effixed and to be attested by its Secretary this 312 day of May, 1991.

ML INTERFUNDING, INC.

Barry S. Friedberg

Attest: 7

James V. Caruso Secretary

(Seal)

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- 2 -

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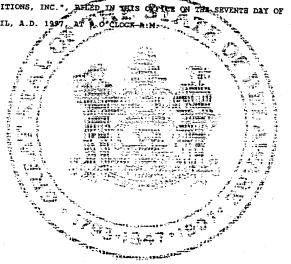
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Page 12/13

State of Delaware Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF CHANCE OF REGISTERED AGENT OF "ML IBK POSITIONS, INC.", AFLED IN THIS CEPTER ON THE SEVENTE DAY OF



2244576 8100 001078442

Edward J. Fresi, Secretary of State
0261364
AUTHENTICATION:
02-16-00

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CERTIFICATE OF CHANGE OF LOCATION OF REGISTERED OFFICE AND OF REGISTERED AGENT

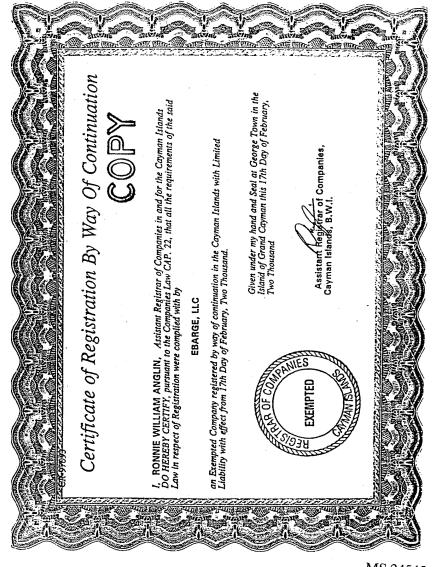
It is hereby certified that:

1. The name of the corporation (hereinafter called the "corporation") is

ML IBK POSITIONS, INC.

- The registered office of the corporation within the State of Delaware is hereby changed to 1013 Centre Road, City of Wilmington 19805, County of New Castle.
- The registered agent of the corporation within the State of Delaware is hereby changed to CORPORATION SERVICE COMPANY, the business office of which is identical with the registered office of the corporation as hereby changed.
- 4. The corporation has authorized the changes hereinbefore set forth by resolution of its Board of Directors.

Signed on AFEIC 1, 1997.



MS 24545

REGISTERED AND FILED
SNO: 10 STHIS 1 TO DAY

THE COMPANIES LAW

COMPANY LIMITED BY SHARES ASST REGISTRARY COMPANIES CAYMAN ISLANDS

ARTICLES OF ASSOCIATION

OF

EBARGE, LLC

In these Articles the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively and Table A of the Law shall be excluded:

"Auditor"

includes any individual or partnership;

"Notice"

means written notice unless otherwise specifically stated;

"Ordinary Shares"

means ordinary shares of US\$1.00 each in the capital of the Company the holder or holders of which will have limited

"Register of Members "

means the Register of Members kept in accordance with

Article 13;

"Member"

means every person, body corporate or partnership registered in the Register of Members as the holder of Ordinary Shares in the Company, and when two or more persons are so registered as joint holders of shares, means the person whose name stands first in the Register of Members as one of such

joint holders;

"the Law"

means the Companies Law (Revised) and any statutory

modification thereof for the time being in force;

"the Company"

means EBARGE, LLC;

"Secretary:

means the person appointed to perform the duties of

Secretary of the Company and includes any Assistant or

Acting Secretary;

1

"share"

shall where the context nits include a h

EXEMPTED

"Special Resolution"

means a resolution passed by all the Members who are entitled to vote.

- In these Articles, unless there be something in the subject or context inconsistent
 with such construction, words importing the plural number shall be deemed to include the singular
 number and vice versa, and words of one gender include any other gender.
- Expressions referring to writing shall, unless the contrary intention appears, be construed including printing, lithography, photography and other modes of representing words in a visible form.
- 4. Unless the context otherwise requires, words or expressions contained in these Articles shall bear the same meaning as in the Companies Law (Revised) or any statutory modification thereof in force for the time being.

SHARES

- (a) The authorised Share Capital of the Company is US\$50,000 divided into 50,000 Ordinary Shares of a nominal or par value of US\$1.00 each.
- (b) Subject to these Articles the unissued shares of the Company (whether forming part of the original or any increased authorised capital) shall be at the disposal of the Members by majority resolution who may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration and upon such terms and conditions as they may determine consistent with these Articles.
- No share shall be issued except as fully paid up.
- 7. The name and address of every person being the holder of registered shares, and the date when they became or ceased to be a Member shall be entered in the Register of Members.
- 8. Every person whose name is entered as a Member in the Register of Members being the holder of registered shares, may request, and the Company shall issue thereto, a certificate specifying the share or shares held and the par value thereof, provided that in respect of a registered nominative share, or shares, held jointly by several persons the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one or several joint holders shall be sufficient delivery to all.
- 9. Any member receiving a share certificate shall indemnify and hold the Company harmless from any loss or liability which it may incur by reason of wrongful or fraudulent use or representation made by any person by virtue of the possession of such certificate. If a certificate is

worn out or lost it may be renewed on production of the worn out certificate, or on satisfactory proof of its loss together with such indemnity as a majority of the members may require.

REDEMPTION OF SHARE CAPITAL

- 10. Subject to the Companies Law (Revised), the Company may
- (a) issue shares on terms that they are liable to be redeemed on such terms and in the manner as the Members by Special Resolution before the issue of the shares may determine; and
 - (b) buy its own shares including any redeemable shares; and
- (c) make a payment in respect of the purchase or redemption of its own shares otherwise than out of its distributable profits, or the proceeds of a fresh issue of shares.

VARIATION OF RIGHTS OF SHARES

- 11. If at any time the authorised share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may only be varied or abrogated with the unanimous consent in writing of Members holding the issued shares or series of shares which may be affected by such variation at a separate class meeting of the holders of shares so affected. To every such class meeting the provisions of these Articles relating to General Meetings shall apply but so that the necessary quorum shall be one or more persons holding or representing by proxy at least two thirds of the issued shares or series of shares so affected.
- 12. The rights conferred upon the holders of the shares of any class or series issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class or series, be deemed to be varied by the creation or issue of further shares of that class or series. The holders of the shares of any class or series shall not have any preemptive right to purchase or subscribe for any shares of the Company unless expressly provided by the terms of the issue of the shares of that class.

REGISTRATION OF MEMBERS

- 13. The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:
 - the name and address of each Member, the number of shares held by him and the amount paid or agreed to be considered to be paid on such shares;
 - (b) the date on which each person was entered in the Register of Members; and

(c) the date on which any person ceased to be a Member.

EVENTS RELATING TO MEMBERS THAT CAUSE WINDING UP AND DISSOLUTION

- 14. Any of the following events shall cause the winding and dissolution of the Company in accordance with Article 49:
- (a) the bankruptcy, winding up, death, insanity, retirement, expulsion or dissolution of such Member,
- (b) if such Member makes any assignment for the benefit of his creditors or files a petition voluntarily for bankruptcy under the laws of any country or files a petition seeking for himself any arrangement, re-organization, amalgamation, composition, re-adjustment, liquidation, dissolution or similar relief under any law or regulation;
- (c) if such Member files an answer or other pleading admitting or failing to contest the material allegation of a petition filed against him in any proceedings of a nature described in the immediately proceeding paragraph of this Article;
- (d) if such Member seeks consents to or acquiesces in the appointment of a trustee, receiver or liquidator of himself or all of a substantial part of his properties.

TRANSFER

- 15. No Member shall transfer, sell or assign or grant any option or other rights with respect to or otherwise dispose of any share held by him from time to time or any interest therein, in whole or in part, without the unanimous written consent of all the other Members. The Members shall not recognize any instrument purporting to transfer, or any other purported disposition of, any share or any interest therein in breach of the foregoing restriction and any purported transfer, sale or assignment of a share of any purported option or other right in respect of a share in breach of the foregoing restriction shall be void. Notwithstanding the foregoing, a Member shall have the right to create or permit to subsist any pledge, lien, charge or encumbrance over any economic interest in any shares held by him where this is necessary or desirable to obtain financing for the benefit the Member, provided, however, that such pledge, lien, charge or encumbrance does not allow the holder to exercise any voting rights or rights or powers with respect to management of the Company or entitle the holder to become Member. In any circumstances described in the immediately foregoing sentence, the consent of the other Members of the Company shall not be required.
- 16. In the event of the dissolution, liquidation, bankruptcy or insolvency of a Member, the Company shall be wound up and dissolved in accordance with Article 49.

17. The Members shall cause the share certificates of the Company issued, if any, to bear a legend making reference to the restriction contained in Article 15.

GENERAL MEETINGS

- 18. Any Member holding an Ordinary Share may convene a General Meeting of the Company, whether by telephone conference call or otherwise, for the purpose of:
- (a) considering and if thought fit passing of a Special Resolution to alter or amend the Memorandum and Articles of Association of the Company or its authorised share capital or to require the Company to be dissolved; or
 - (b) to consider any matter in connection with the Company's affairs.
- 19. Fourteen days Notice in writing, by telex or facsimile of a general meeting shall be given to each of the Members entitled to vote at such meeting (which notice may be waived in writing) and mailed to each Member entitled to vote at his address as registered in the Register of Members by air mail (if appropriate) and such Notice shall state the time and place for such meeting and whether such meeting is to take place by conference call (and, if so giving the details thereof) and the objects of the Meeting (as far as practicable).
- 20. The accidental omission to give Notice of a meeting to or the non-receipt of Notice of a meeting by any person entitled to receive Notice shall not invalidate the proceedings at that meeting. Notice by telex or facsimile need only be given to a Member who gives the Company a telex or facsimile number.
- 21. A Meeting of the Company shall, notwithstanding that it is called by shorter Notice than that specified in these Articles, be deemed to have been properly called if it is so agreed by all the Members entitled to attend and vote thereat.

PROCEEDINGS AT GENERAL MEETINGS

- 22. (a) At any General Meeting of the Company, the Members present in person or by proxy shall elect by ordinary resolution a Chairman of the Meeting.
- (b) At any General Meeting of the Company one or more Members entitled to vote present in person or representing in person or by proxy all of the outstanding voting shares of the share capital of the Company entitled to vote at such meeting shall form a quorum for the transaction of business; if within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the following day at the same time at the same

place, or by conference call, as the case may be.

- (c) The Chairman may, with the consent of any meeting by unanimous resolution at which a quorum is present (and shall if so directed by the meeting by unanimous resolution). adjourn the meeting from time to time and from place to place, and only other business left unfinished at the meeting from which the Members present in person or represented by proxy have adjourned shall be dealt with. It shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at the adjourned meeting; save and except for a meeting adjourned sine die, when notice of the adjourned meeting shall be given as in the case of an original meeting.
- 23. (a) Subject to any rights or restrictions lawfully attached to any class or series of shares, at any meeting of the Company each Member holding Ordinary Shares shall be entitled to one vote for each share held by him and such vote may be given in person or by proxy.
- (b) At any meeting of the Company other than in respect of a matter requiring a Special Resolution any question proposed for the consideration of the Members shall be decided by a majority vote of Members entitled to vote.
- (c) At any meeting of the Company a declaration by the Chairman that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously or by a particular majority or lost and an entry in a book containing the minutes of the proceedings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such question.
- 24. When a vote is taken by ballot each Member entitled to vote shall be furnished with a ballot paper on which he shall record his vote in such manner as shall be determined at the meeting having regard to the nature of the questions on which the vote is taken; and each ballot paper shall be signed, initialled or otherwise marked so as to identify the voter. At the conclusion of the ballot the ballot papers shall be examined by the Chairman with assistance of a Member appointed for the purpose, and the result of the ballot shall be declared by the Chairman.
- 25. An instrument appointing a proxy shall be in writing under the hand of a Member of his attorney duly authorised in writing or, if the Member is a corporation either under seal or under the hand of an officer or attorney of the corporation duly authorised, and shall be such other form as the Members may from time to time approve.
- 26. Any corporation which is a Member of the Company may by resolution of its directors authorize such persons as it thinks fit to act as its representative at any meeting of the Members of the Company and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member of the Company.

WRITTEN RESOLUTIONS

- 27. (a) A unanimous resolution in writing (whether on one or more separate papers) duly signed by all Members holding shares entitled to vote on the matter shall be deemed a valid resolution of a General meeting or a class meeting, as the case may be.
- (b) A resolution in writing (whether on one or more separate papers) duly signed by Members holding one hundred per cent of the shares entitled to vote on the matter shall be deemed a valid Special Resolution of the General Meeting or class meeting as the case may be.

WRITTEN CONSENT

28. If all the Members entitled to vote in person or by proxy sign the minutes of meeting, the same shall be deemed to have been duly held notwithstanding that the members have not actually come together or that there may have been technical defects in the proceedings, and a cunanimous resolution in writing in one or more parts signed by all the Members entitled to vote shall be as valid and effectual as if it has been passed at a meeting duly called and constituted.

MANAGEMENT

- 29. (a) The Members are considered to be directors of the Company for the purposes of Section 194 of The Companies Law, and shall, by majority resolution or unanimous written consent, have full, complete, and exclusive authority to manage and control the business affairs and to buy, sell and borrow on behalf of the Company and to perform all other acts or activities customary or incidental thereto.
- (b) The Members shall, by majority resolution or unanimous written consent, have authority to execute all documents and hold all meetings otherwise required of directors of a company and to act pursuant to Sections 184 and 194 of The Companies Law (1998 Revision);
- (c) The Members shall, by majority resolution or unanimous written consent, have authority to institute, bring, prosecute and defend proceedings in the name of the Company.
- 30. A Member of the Company may hold other office or place of profit with the Company and may be paid such extra remuneration therefor whether by way of salary, commission, participation of profits or otherwise.
- 31. The Members may, from time to time as they deem advisable, select natural persons who are employees or agents of the Company and designate them as officers of the Company (the "Officers") and assign titles (including without limitation, President, Vice President, Secretary, and Treasurer) to any such person. Unless the Members decide otherwise, if the title is one commonly used for officers of a business corporation formed under The Companies Law (1998 Revision), the assignment of such title shall constitute the delegation to

such person of the authorities and duties that are normally associated with that office. Any delegation pursuant to this Article 31 may be revoked at any time by the Members. An Officer may be removed with or without cause by the Members. The Member hereby appoints the following officers to manage the affairs of the Company:

Name Office

James A. Brown Chairman of the Board and President

Joseph S. Valenti Vice President - Finance and Treasurer

Gerard Haugh Vice President and Secretary

Kira J. Toone Vice President, Assistant Secretary and

Assistant Treasurer

Frank J. Conley Vice President and Assistant Secretary
William R. Fuhs Vice President and Assistant Secretary

- No Member or Officer shall be liable to the Company or any other person or entity who has an interest in the Company for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Member or Officer in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Member or Officer by this Agreement, except that a Member or Officer shall be liable for any such loss, damage or claim incurred by reason of such Member's or Officer's willful misconduct. To the full extent permitted by applicable law, a Member or Officer shall be entitled to indemnification from the Company for any loss, damage or claim incurred by such Member or Officer by reason of any act or omission performed or omitted by such Member or Officer in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Member or Officer by this Agreement, except that no Member or Officer shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Member or Officer by reason of willful misconduct with respect to such acts or omissions; provided, however, that any indemnity under this Article 17 shall be provided out of and to the extent of Company assets only, and the Member shall not have personal liability on account thereof.
- 33. A Member may be party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is otherwise interested and may vote in respect of it and shall not be accountable to the Company for any benefit which he derives from any such office or from any such transaction or arrangement and no such transaction or arrangement shall be avoidable on the grounds of such interest or benefit provided the Member shall first disclose his interest in the same to all other Members in writing.
- 34. The Members may, by majority resolution of each class or series of shares outstanding, delegate their power and authority pursuant to Article 29 to one or more persons who

may or may not be members.

35. The Company will be treated as a partnership of U.S. federal income tax purposes.

MINITES

- 36. The Members shall cause minutes to be made in books provided for the purpose:
 - (a) of all appointments of officers made by the Members;
- (b) of the names of the Members (including those represented thereat by an alternate or by proxy) present at each meeting of the Members and of any committee of the Members;
 - (c) of all resolutions and proceedings at all meetings of the Members.

COMPANY SECRETARY

37. The Members may by majority resolution appoint a Company Secretary to perform administrative functions on behalf of the Company.

CUSTODIAN

38. The Members may by majority resolution appoint a custodian or trustee for the safe keeping of all moneys, assets and securities of the Company with such powers and duties in respect thereof as may be specified in such appointment.

DISTRIBUTIONS

- 39. Subject to the Law, the Members may by majority resolution from time to time declare distributions (including interim distributions) on shares of the Company outstanding and authorise payment of the same out of the funds of the Company lawfully available therefor.
- 40. The members may by majority resolution, before declaring any distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the members, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business of the Company.
- 41. No distribution shall be payable except out of the profits of the Company, realised or unrealised, or out of the share premium account or as otherwise permitted by the Law.
- 42. The Members may by majority resolution declare that any distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock or any other company or in any one or more of such ways and where any

difficulty arises in regard to such distribution, the Members may by unanimous resolution settle the same as they think expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all members and may vest any such specific assets in trustees as may seem expedient to the Members.

43. Any distribution, interest or other money payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any distributions, bonuses, or other monies payable in respect of the share held by them as joint holders.

ACCOUNTS AND FINANCIAL STATEMENTS

- 44. The Members shall cause accounts to be kept of all transactions of the Company in such manner as to show a true and fair position of the assets and liabilities of the Company for the time being.
- 45. The Members by majority resolution shall have the power to fix and from time to time change the fiscal year of the Company and unless so changed, the fiscal year shall be the calendar year.
- 46. Each Member may demand and shall receive true and full information regarding the state of the business and financial condition of the company.
- 47. The Members shall by majority resolution have power to appoint and dismiss the Auditor from time to time.
- 48. The duties and remuneration of the Auditor shall be fixed by the Members or in such manner as the Members may by majority resolution determine.

WINDING UP AND DISSOLUTION

- 49. The Company shall be considered to have commenced voluntary winding up and dissolution automatically and without the requirement of any other act:
 - (a) upon the expiration of the period of fifty years from the date of its incorporation;
- (b) if the Members of the Company pass a Special Resolution requiring the Company to be wound up and dissolved; or
 - (c) upon the happening of any event in relation to a Member as defined in Article 14.
- 50. On winding up and dissolution of the Company the balance of the assets available for distribution and subject to any special rights or restrictions attaching to any class or series of shares shall be applied in paying to the members the amounts paid up on the shares held by them and the surplus shall belong to such Members according to the respective number of shares held by them.

LIQUIDATOR

51. When the Company is in winding up and dissolution if no other liquidator is appointed, the Members shall act as liquidator or joint liquidators in the event that there shall be more than one.

NOTICES

- 52. Unless otherwise herein or by law expressly provided, a Notice may be served by the Company on any Member either personally or by telex or facsimile to his registered address or by sending it using air mail (if appropriate) through the post prepaid in an envelope addressed to such Member at his address as registered in the Register of Members.
- 53. Any Notice required to be given to the Members shall with respect to any shares held jointly by two or more parsons be given to all such persons.
- 54. Any Notice shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission, and in proving such service it shall be sufficient to prove that the Notice was properly addressed and prepaid, if posted, and the time when it was posted or transmitted by telex or facsimile as the case may be.

SEAL OF THE COMPANY

55. The Company may, if the Members so determine have a seal. The Seal of the

Company shall not be affixed to any instrument except over the signature of at least one Member and the Secretary or by some person appointed by the Members, provided that the Secretary may affix the Seal of the Company over his signature only to any authenticated copies of the Articles, the Memorandum of Association, the minutes of any meetings or any other document required to be authenticated by him and to any instrument which the Members have specifically approved beforehand.

ALTERATION OF ARTICLES

56. No Article shall be rescinded, altered or amended, and no new Article shall be made until the same has been proposed and passed as a Special Resolution at a General Meeting duly convened.

ASSIGNMENTS

57. The Members may at any time transfer in whole or in part their shares in the Company. If a Member transfers all of its shares in the Company pursuant to this Article 57, the transferee shall be admitted to the Company upon registration of a share transfer and the transferee's name being entered on the Register of Members. Such admission shall be deemed effective immediately on entry in the Register of Members, and, immediately following such entry, the transferor Member shall cease to be a Member of the Company.

ADMISSION OF ADDITIONAL MEMBERS

58. One or more additional members of the Company may be admitted to the Company with the written consent of the Members.



THE COMPANIES LAW

COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

EBARGE, LLC

- The name of the Company is EBARGE, LLC.
- The principal business office of the Company shall be located at World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281.
- The Registered Office of the Company shall be at the offices of Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 847, Grand Cayman, Cayman Islands, British West Indies or at such other place as the Members may from time to time decide.
- The objects for which the Company is established are unrestricted and shall include, but without limitation, the following:
- (a) Acquire by purchase, lease, contribution of property or otherwise, own, hold, sell, convey, transfer or dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Company;
- (b) Act as a trustee, executor, nominee, bailee, director, officer, agent or in some other fiduciary capacity for any person or entity and to exercise all of the powers, duties, rights and responsibilities associated therewith;
- (c) Take any and all actions necessary, convenient or appropriate as trustee, executor, nominee, bailee, director, officer, agent or other fiduciary, including the granting or approval of waivers, consents or amendments of rights or powers relating thereto and the execution of appropriate documents to evidence such waivers, consents or amendments;

(d) Operate, purchase, maintain, finance, improve, own, sell, convey, assign, mortgage, lease or demolish or otherwise dispose of any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposessing Company;

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CAYMAN ISLANDS

OF COMPANES

- (e) Borrow money and issue evidences of indebtedness in furtherance of any or all of the purposes of the Company, and secure the same by mortgage, pledge or other lien on the assets of the Company;
- (f) Invest any funds of the Company pending distribution or payment of the same pursuant to the provisions of this Agreement;
- (g) Prepay, in whole or in part, refinance, recast, increase, modify or extend any indebtedness of the Company and, in connection therewith, execute any extensions, renewals or modifications of any mortgage or security agreement securing such indebtedness;
- (h) Enter into, perform and carry out contracts of any kind, including, without limitation, convirtacts with any person or entity affiliated with the Member, necessary to, in connection with, convenient to, or incidental to the accomplishment of the purposes of the Company;
- (i) Employ or otherwise engage employees, managers, contractors, advisors, attorneys and consultants and pay reasonable compensation for such services; and
- (j) Enter into partnerships, limited liability companies, trusts, associations, corporations or other ventures with other persons or entities in furtherance of the purposes of the Company.

The Company's business is not restricted to the furtherance of the objects expressly set out in this Memorandum of Association. The Company has full power and authority to carry-out any objects not prohibited by law in the Cayman Islands. The Company is capable of exactising all the functions of a natural person of full capacity irrespective of any question of corporation benefit.

In the interpretation of this Memorandum of Association in general and of this Clause 4 in particular no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the juxtaposition of two or more objects, businesses or powers and that, in the event of any ambiguity in this clause or elsewhere in this Memorandum of Association, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

5. Except as prohibited or limited by the Companies Law (Revised), the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conductive thereto or consequential thereon, including, but without in any way restricting the generality of the

foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz:

to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to register the Company to do business in any other jurisdiction; to sell, lease or dispose of any property of the Company; to draw, make, accept, endorse, discount, execute and issue promissory notes, debenures, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the security of the undertaking or on all or any of the Company's assets including uncalled capital or without security; to invest the Company's monies in such manner as the Members determine; to promote other companies; to sell the undertaking of the Company for eash or any other consideration; to distribute assets in specie to the Members of the Company; to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in eash or kind to officers, employees, past or present and their families; to earry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Member, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid BUT the Company may only carry on the businesses for which a licence is required under the laws of the Cayman Islands when so licensed under the terms of such laws.

- 6. The Company shall be established as a limited liability company and the liability of the Members is limited to the amount from time to time unpaid on the Members' shares. It is intended that the Company be treated as a corporation for liability purposes and a limited partnership with respect to the laws regarding taxation in the United States.
- 7. The share capital of the Company is U\$\$50,000 divided into 50,000 Ordinary Shares of a nominal or par value of U\$\$1.00 each with power for the Company insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Revised) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.

 The Company shall be placed into winding up and dissolved upon the expiration of the period of fifty years from the date of its incorporation.

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EBARGE, LLC

PROXY

I/We ML IBK Positions, Inc.

of Merrill Lynch & Co., Inc., World Financial Center, North Tower, 250 Vesey Street, 10th Floor, New York, NY 10281 U.S.A.

being a Director of the above company hereby revoke all previous proxy appointments (if any) and do hereby appoint Trident Directors (Cayman) Ltd. of Grand Cayman or failing them Trident Nominees (Cayman) Ltd. of Grand Cayman as my/our proxy, to receive notice of, to attend and to vote for me/us and on my/our behalf to represent me/us at the Annual Meeting of the Directors held in the Cayman Islands, and at any adjournment thereof. This proxy is to remain in force until revoked in writing by me/us, by written notice to the Company.

This appointment is limited to allow the proxy to vote only in respect of.

- Approval of the Annual Return and the appointment of a person to sign and seal same;
- Filing of the Annual Return and payment of the annual government fee;
- Re-appointment of the directors previously in office;
- Convening of meetings for the foregoing purposes and the waiver of notice thereof:
- Such other matters as to which the proxy shall have received express written instructions from the appointor.

MC IBK Positions, Inc. Director

Date signed:



TRIDENT TRUST COMPANY (CAYMAN) LIMITED

INDEMNITY

THIS	AGREEN	JENT is	made the	17th day	of February	2000 by	and between
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1.	Joseph	S. Valenti,	Director
of	ML IBA	Positions	, I~c.

(hereinafter called "the Beneficial Owner(s)", which expression where the context so admits shall include his(her)(their) heirs, legatees, intestate successors, executors, administrators and assigns), of the one part, and

2. TRIDENT TRUST COMPANY (CAYMAN) LIMITED (hereinafter called "ITCayman" (which expression where the context so admits shall include its subsidiary, associated and affiliated companies wheresoever situated, its directors, officers and employees and the directors, officers and employees of its subsidiary, associated and affiliated companies), of the other part.

WHEREAS:

A. A company has been incorporated under the laws of the Cayman Islands under the name of

EBARGE, LLC

With registration number 97093 (hereinafter called "the Company")

- B. TTCayman or one or more of its affiliated, associated or subsidiary companies or some, one or more of its directors, officers or employees, or some, one or more of the directors, officers or employees of its affiliated, associated or subsidiary companies may become the registered holder of the shares of the Company as nominee Shareholder for the Beneficial Owner(s), and
- C. TTCayman or some, one or more of the directors, officers or employees of TTCayman and/or its affiliated, associated or subsidiary companies may consent at the request of the Beneficial Owner(s) to act as directors and officers of the Company and/or to act as authorised signatories either solely or jointly on such bank accounts as shall be operated by the Company, and
- D. TTCayman or some, one or more of the directors, officers or employees of TTCayman and/or its affiliated, associated or subsidiary companies may consent at the request of the Beneficial Owner(s) to provide accounting, administration and such other services of like nature from time to time.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

- 1. In consideration of TTCayman or one or more of its affiliated, associated or subsidiary companies or some, one or more of its directors, officers or employees or some, one or more of the directors, officers or employees of its associated or subsidiary companies agreeing to act as nominee shareholders for the Beneficial Owner(s) or as directors and officers of the Company or as authorised signatories on the Company's bank account or to provide accounting, administration and such other services of like nature from time to time at the Beneficial Owner(s) request, the Beneficial Owner(s), and each of them jointly and severally covenant(s) with TTCayman and its affiliated, associated and subsidiary companies and (as a separate covenant) with every director, officer and employee of TTCayman and its affiliated, associated and subsidiary companies and their directors, officers and employees to keep them indemnified and held harmless against all actions, suits, proceedings, claims, demands, costs, expenses and other liabilities whatsoever which may be incurred or become payable by them in respect of or arising out of:
 - 1.1 them or any of them accepting or holding any office as director or otherwise of the Company or holding any shares or being entered on the register of members as a holder of any shares of the Company.
 - 1.2 anything done or omitted to be done as the registered holder of the shares or as a director or officer of the Company at the request or with the prior approval of or ratified by the Beneficial Owner(s) or any of them or his(her)(their) agents:
 - 1.3 any transaction executed on the Company's bank account by parties who shall have signing powers on the account at the request or instruction of the Beneficial Owner(s) or any of them or his(her)(their) agents.
 - 1.4 any accounting, administration and such other services of like nature provided from time to time at the request or instruction of the Beneficial Owner(s) or any of them or his(her)(their) agents.
- 2. The Beneficial Owner(s) shall not give to TTCayman or the registered members or directors of the Company any instructions or directions which are unlawful under the laws of the Cayman Islands or any other place having jurisdiction over the Company or applicable in the place where such instructions are to be performed.
- 3. For the avoidance of doubt TTCayman shall be deemed to have received instructions from the Beneficial Owner(s) whether same shall have been received in writing, verbally, by telephone, telex, facsimile, cable or otherwise, howsoever.
- PROVIDED ALWAYS that TTCayman shall have acted in good faith and that this indemnity
 shall not be available for TTCayman in respect of any act or omission happening through the
 dishonesty, willful default or fraud of TTCayman.
- 5. This indemnity shall apply in favor of TTCayman notwithstanding that there may be some defect in its appointment or qualification or authority as an Officer or Director or authorized signatory of the Company. This indemnity is intended to inure for the benefit of TTCayman as a trust in its favor and so as to be enforceable by it against the Beneficial Owner(s).

- 6. This Agreement and the rights of the parties shall be governed and construed in accordance with the laws of the Cayman Islands and the parties agree to submit themselves to the non-exclusive jurisdiction of the courts of the Cayman Islands in connection with this Agreement.
- Words importing the singular shall include the plural and vice versa and words importing the
 masculine gender shall include females and words importing persons shall include partnerships
 and bodies corporate.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed in its name and behalf by its officers duly authorized.

Dated this the 2/14	day of	March	, 2	000.	
Sole / All/Beneficial Owner	las				
Sole / All/Beneficial Owner	r(s)				
Sign	Uh	7			
Witness(es)		<u> </u>			
Dated this the 15th day of			28-control - 1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-		
Trident Trust Company (C	layman) Lin	nited		•	
Sabuu 1. Witness(es)	Temp	andan			
Witness(cs)	J				

EBARGE, LLC

DIRECTOR'S RESOLUTION

WHERPAS the undersigned, being all the Directors of the Company, hereby consent to the adoption of the following resolutions taken without a meeting, this instrument to have the same force and effect as if the actions herein referred to had been taken at a timely called and duly held meeting of the Directors of the Company and direct that this written consent to such action be filed with the minutes of the proceedings of the Directors of the Company and further direct that this written consent may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument.

SHARE CERTIFICATE

IT WAS RESOLVIED that the Share Certificate, a specimen of which is attached hereto, be adopted as the form of Ordinary Share Certificate of the Company.

ISSUE OF SHARES

MI/IBK Positions, Inc.

Date signed: 3/16/2000

Applications having been received from the persons/companies named in the first column below for the allotment to them at par of the respective namber of Shares appearing opposite their respective names in the second column, such applications were considered and, payment in full having been made by each of such applicants, IT WAS RESOLVED to allot to each of them the number of Shares appearing opposite their respective names in the third column, and that Share Certificates in respect of such Shares be signed, scaled and issued to the allottees:-

Applicant's Name No. of Shares applied for allotted

MI. IBK Positions, Inc. 1

The Secretary is instructed to make the necessary entries in the Register of Members and the Secretary and any Director, or any two Directors, are instructed to sign, seal and deliver the respective share certificate(s).

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State of Delaware Office of the Secretary of State

PAGE

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF TRANSFER OF "EBARGE, LLC", FILED IN THIS OFFICE ON THE SEVENTEENTE DAY OF MARCH, A.D. 2000, AT 9 O'CLOCK A.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE LIMITED LIABILITY COMPANY HAS FILED ALL DOCUMENTS AND FAID ALL FEES REQUIRED BY TITLE 8 OF THE GENERAL CORPORATION LAWS OF THE STATE OF DELAWARE.

3150007 0390 001136045

AUTHENTICATION: 0322719

DATE: 03-17-00

STATE OF CHIAMASE SECRETARY OF STATE DIVISION OF CORPORATIONS FILED OF ON AN OF 1 TOTAL DOLLAGOUS - 315000

CERTIFICATE OF TRANSFER OF EBARGE, LLC

(a Delaware limited liability company)

Ebarge, LLC, a limited liability company organized under the Limited Liability Company. Act of the State of Delaware (the "Act"), for the purpose of transferring or Jomesticating in a foreign jurisdiction, other than a state, pursuant to Section 18-213 of the Act, hereby certifies that:

- 1. The name of the limited liability company (the "Company") is Ebarge, LLC
- 2. The original certificate of formation of the Company was filed in the office of the Secretary of State of the State of Delaware on December 28, 1999.
- The foreign jurisdiction to which the Company shall be transferred or in which it shall be domesticated is Cayman Islands, British West Indies.
- The transfer or domestication herein certified has been duly approved in accordance with Section 18-213 of the Act.
- The existence of the Company as a limited liability company of the State of Delaware shall cease when this Certificate of Transfer becomes effective.
- 6. The Company agrees that it may be served with process in the State of Delaware in any action, suit or proceeding for enforcement of any obligation of the Company arising while it was a limited liability company of the State of Delaware, and the Company hereby irrevocably appoints the Secretary of State of the State of Delaware as its agent to accept service of process in any such action, suit or proceeding.
- 7. The address to which a copy of the process referred to in subsection (b)(6) of Section 18-213 of the Act shall be mailed to the Company by said Secretary of State is Trident Trust Company (Cayman) Lunited, 4th Floor, One Capital Place, P.O. Box 847, Grand Cayman, Cayman Islands, British West Indies.

[signature page follows]

425942-+1 0064428-0053

IN WITNESS WHEREOF, this Certificate of Transfer has been duly executed as confederary 3, 2000, and is being filed in accordance with Section 18-213 of the Act by an authorized person of the surviving domestic limited liability company.

EBARGE, LLC

By: 15! William R. Fuhs
Name: William R. Fuhs
Title: Vice President & Assistant Secretary

- 2 -

435942-+1 0064428-0053

	-4	U.S. Corporation Income Tax Return		L	OMB No. 1543-6123
F	orm)	For calendar year 1999 or tax year beginning 12 26 , 1989, ending 12 31	1999	<u>.</u>	51000
		vanue Service Instructions are separate. See page 1 for Paperwork Reduction Act Notice	<u> </u>		しきフラ
	heck if a	Name, address, sky or town, sarty, and ZIF code			identification numb
12	TRACK FO			3-359	
2 P	traonal h Nach Sci	alding co. D		e incorp	
3 73	ersonal s	race corp. 2 World Financial Center, 7th Floor	_	0/23/	
(a)	s definati	in Temporary	D Total	91 9 E3 9 E	ties by 7 of jackincyous)
31	ca instruc	richa) New York NY 10281-6100			
Ec	hack boo	cuble boxes: (1)	\$		4,510,466,520
	1a	Grand records or sales 3,370,971 b Lass returns and allowances 0 0	iai 🛌	10	3,370,971
	2	Cost of goods sold (Schedule A, line 8)	L	3	0
	3	Gross profit. Subtract line 2 from tine to	L	3	3,370,971
	4	Dividends (Schadule C. line 19)	J	4	3,000,180
1	5	Interest	L	5	8,451,558
6	6	Gross rents	J	6	00
m	7	Gross royalties	L	7	
4	8	Capital gain net income (attach Schedule D (Form 1120))			204,906,214
	9	Net gain or (loss) from Form 4767, Part B, line 18 (attach Form 4797)	. L	3	-254,039
	10	Other income (see page 6 of instructions attach schedule) STATEMENT 1 OTHER INCOME	٠ إ	10	148,568,318
_	11	Total Income. Add fines 3 through 10		11	368,243,202
	12	Compensation of officers (Schedule E. line 4)	Ļ	12	0
ş	13	Salaries and wages (less employment credits)		13	0
	14	Repairs and maintenance		14	0
- 1	15	Bad debts		15	0
ş	16	Rents	H	15	156
n å	17	Taxes and Montes STATEMENT 2 - TAXES		17	
5.	18	imarest		18	134,957,188
De dan	19	Charitable contributions (see page 8 of Instructions for 10% limitation)			5,524,014
	20	Depreciation (attach Form 4562)		21b	0
b m	21	Cass depression contraction on Schooling A and espendie on results		22	
3 1	22	Dapletion		23	
ž	23	Advertising		20	
2	24	Pansion, profit—sharing, etc., plans		25	0
4	25	Employee benefit programs Other declucions (stack schoolie) STATEMENT 3 - OTHER DEDUCTIONS	⊦	28	178,045,718
ž	27		··: Ի	27	318,527,076
1	28	Total deductions, Acid lines 12 through 26 Taxable Income before net operating loss deduction and special deductions. Subtract line 27 from line		28	49,716,126
2	29	Less: a Net operating loss (NOL) deduction (see page 9 of instructions) 294	0 10	3525	
	-			29a	640,976
	30	Taxable Income, Subtract line 29¢ from line 28	$\neg \top$	30	49,075,150
	31	Total tax (Schedula J. line 12)	[31	O
т	32	Payments: 8 199a overpayment credited to 1948 32a 0	100		
T a X	ъ	1996 estimated tax payments 372b 0 medical first	A.		
	ء ا	Lase 1999 refund applied for on Form 4455 320 (0) d Bal > 32d	D		
4		Tex deposited with Form 7004	0		0
P	1	Credit for tax paid on undistributed capital trides (attach Form 2439) 32f	0		
g.a.y.fi e	9	Credit for Federal 14x on fuels (attach Form 4136). See instructions ,		32h	
E.	33	Estimated tax penalty (see page 10 of instructions). Check if Form 2220 is attached		33	0
Ţ	34	Tax dire. If line 32h is smaller than the total of lines 31 and 33, order amount owed		34	
•	35	Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid		35	
	36	Enter amount of line 35 you want: Credited to 2000 estimated tax 🕨 0 Refunds		36	O been believed yen by tre-
		Under penalties of perjury, I deciare that I have examined this return, including accompanying schedules and stateme baset, it is true, corpect, and complete. Decisions of preparer (oth Prihat taxpayer) is based on all information of wh	ich bisb. um boon:	SEL LFE	
Si	gn	1			
He	ere	Signature of ultiper Date Title			
			Pro	08/x1**	SSM or PTIN
Pali		Freparets : Usto Checker segrature segrampioped			
	bases, a	Firm's name (or			
	Only	years if self-emple yed]	-		
Con	wink tle	Retailoid & Audit & Au			MCFE1A99
ERI					

2585

Journal Entry Summary Report

Year: 1999 Com	pany Code N011 ML IBK POSITIONS, INC.	
TMS Account Number	TMS Account Description	Amount
6049201	Pshp Portfolio Div Income	907,908.00
6065101	Pshp Portfolio Int Income	816,667.00
6090092	Pshp S.T. Capital Gain	87,057,680.00
6090192	Pshp S.T. Capital Loss	-11,711,631.00
6092092	Pshp L.T. Capital Gain	41,490,965.00
6092192	Pshp L.T. Capital Loss	-9,861,157.00
6094190	Pshp Ord. Loss - 4797	-257,118.00
6094)91	Pshp Ord. Gain - 4797	3,079.00
6107090	OTHER SCHEDULE K INCOME	148,568,318.00
6190101	Charitible Contribution	908.00
6260820	Partnership Loss (TAX)	166,736,748.00

1999 Company Com	le N011 ML IBK POSITIONS, INC.	
Partnership Name	Description	Amount
DT Account Number 6094191		
FS Equity Partners III L.P.	Net gain (loss) under section 1231 (other than due to ensualty or theft)	1,094.0
FS EQUITY PARTNERS IV, L.P.	Net gain (loss) under section 1231 (other than due to eastably or theft)	1,125.0
KECALP INTERNATIONAL L.P. 1997	Net gain (loss) under section 1231 (other than due to easuably or theft)	860.0
Total for DT Account Number: 60941	91	3,079.0
DT Account Number 6107090		-
COLONY INVESTMENT PARTNERSHIP L.L.	P. Ordinary Income(loss) from trade or business activities	600.0
COLONY INVESTMENT PARTNERSHIP VIII	-G Net income(loss) from remail real estate activities	62,190.0
COLONY INVESTORS, L.F.	Net income(loss) from rental real estate activities	5,628.0
DOLL TECHNOLOGY INVESTMENT FUND	Portfolio Income(loss): other portfolio Income	5,025.0
EBARGE, LLC	Ordinary income(loss) from trade or business activities	5,753.0
PS Equity Partners III L.P.	Net income(loss) from rental real estate activities	3,079.00
FS Equity Partners III L.P.	Ordinary Income(loss) from trade or business activities	48,752.0
FS EQUITY PARTNERS IV, L.P.	Ordinary income(loss) from trade or business activities	25,282.0
FS EQUITY PARTNERS IV, L.P.	Not income(loss) from rental real estate activities	3,151.00
FS EQUITY PARTNERS IV, L.P.	Portfolio income(loss): other portfolio income	11,803.0
JAPAN PORTFOLIO HOLDINGS II, LLC	Portfolio Income(loss): other portfolio income	19,993.00
UM2 CO-INVESTMENT, L.P.	Ordinary Income(loss) from trade or business activities	14,505.00
LSML JAPAN HOLDINGS H, LLC	Portfolio Income(loss): other portfolio income	75,047.00
LT CAPITAL VIL.P.	Ordinary income(toss) from trade or business activities	146,412,896.00
LT CAPITAL VILTO,	Ordinary Income(loss) from trade or business activities	127.00
NIPPON PORTFOLIO LIOLDINGS II, LLC	Partfalla Income(loss): other partfolio income	\$40.00
MPI II, L.L.C.	Other income(loss)	1,121.0
NPI II, L.L.C.	Net income(loss) from remail real estate activities	45,973.00
NPI II, L.L.C.	Portfolio Income(loss); other portfolio income	121.00
OVERSIGHT PARTNER L LLC.	Ordinary Income(loss) from trade or business activities	1,480,846.0
THE GLOBAL CONVERGENCE FUND, L.P.	Other income(loss)	326,272.00
TK HOLDINGS	Ordinary income(loss) from trade or business activities	19,314.00
Total for DT Account Number: 61870	90	148,568,318.0
DT Account Number 6190101		
FS Equity Partners III L.P.	Charitable contributions	583.00
FS EQUITY PARTNERS IV, IP.	Charitable contributions	317.00
KECALP INTERNATIONAL L.P. 1997	Charitable contributions	8.00
Total for DT Account Number: 61901	01	908.0
DT Account Number 6260820	Other deductions	32,920.00
Amstar Property Rights Holding, LLC		70,389.00
ARENA CAPITAL INVESTMENT FUND, LP	Deductions related to portfolio income	10,369.00

From: Sent: To:

Bynum, Brad (IBK-DAL)
Wednesday, December 22, 1999 10:20 AM
DeVito, Mark (CICG - CAPMKTS); Brown, James (CICG - CAPMKTS); Fuhs, William (CICG - CAPMKTS)
DMCC for Enrun Project

Subject:



December 22 1999 MEMO2,doc

Drad Bynum
Associate
Investment Banking
200 Crescent Court, Suite 550
Dallas, Texas 75201

214-849-5320

■ 214-849-5320

■ bbynum@exchange.ml.com

To: Debt Markets Commitment Committee

From: Project Finance and Lease Group: James

Brown

Debt Capital Markets: Mark Devito ML Houston: Schuyler Tilney ML Dallas: Rob Furst, Brad Byroum

Tel·

Leveraged Finance Group: x8427 Debt Capital Markets: x4908 ML Houston: 713-759-2530 ML Dallas: 214-849-5350, x5320



Date: December 22, 1999

Subject: \$7.0 MILLION EQUITY BRIDGE COMMITMENT

L SUMMARY AND TRANSACTION OVERVIEW

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Euron Corp. to book \$12MM of earnings. The transaction must close by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they believe our hold will be for less than six months. The investment would have a 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is \$39 million. Enron wants to monetize the first 3 years of cash flow for \$28MM. They will do this by establishing a U.S. special purpose vehicle. The special purpose vehicle will be capitalized by out \$7MM investment and a \$21MM loan from Enron Corp. Enron has a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Euron confirming this commitment.

Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions as adding significant value. Enron has generated a fee to ML in excess of \$40 MM in 1999.

II. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution
Acquisition Loan (from Enron to SPV)
Total Purchase Price

\$ 7.00 Million 21.00 Million \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed Loan secured by Purchaser's interest in the Barge Project Only

To: Debt Markets Commitment Committee

From: Project Finance and Lease Group: James

Brown Debt Capital Markets: Mark Devito ML Houston: Schuyler Tilney ML Dallas: Rob Furst, Brad Byrnum

Leveraged Finance Group: x8427 Debt Capital Markets: x4908 ML Houston: 713-759-2530 ML Dallas: 214-849-5350, x5320

Merrill Lynch

Date: December 22, 1999

Subject: \$7.0 MILLION EQUITY BRIDGE COMMITMENT

TRANSACTION SUMMARY

Entity: Special Purpose Vehicle

\$7.0 Million Equity Facility:

\$7.0 Million Request

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co.

Timing:

Closing by year end.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Leo J. Kelser

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enron will own the Freferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

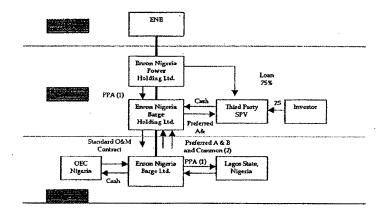
 Stock Class
 Pre Trigger Date
 Post Trigger Date

 Preferred A (Purchaser)
 0.1% of CF
 0.1% of CF

 Preferred B, (Enrow)
 9.9% of CF After Pref A
 99.0% of CF After Pref A

 Common Stock (Purchaser)
 100.005 of CF After Pref A&B
 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



TIME LINE

- (1) PPA is between Euron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Euron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Euron Nigeria Barge Ltd.
- (2) Euron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Euron Barge Holding Ltd.
- (3) Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd.

BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Developmeni Costs	1,500
Working capital and Spares	2,119
Contingency	181
Total Corte	\$45.614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9 123	\$13.362	\$13.706	\$3.410	\$39 691

The \$45.6 million project costs are to be paid by Euron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of

IV. ENRON OVERVIEW

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Euron") has developed significantly over the past year as Euron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was

- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)
 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments

 - Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million) . Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary
- (Enron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Euron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Euron's total assets were \$34 billion and its equity market capitalization was approximately \$32 billion. For the year ended

December 31, 1998, Enron generated revenue of \$31.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azurix). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently amounce the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an \$850 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

V. PRELIMINARY INFORMATION MEMORANDUM

Attached

APPROPRIATION REQUEST COVER PAGE

(\$ in Thousands)
Project Name:

Enron Nigerian Barge

Management Unit:

CICG

Financial Commitment:

IBK Needs to Close by 12/31/99 – Takeout by 6/30/00 Group: Project Start / Finish:

EXECUTIVE SUMMARY Eastly:

Facility:

Special Purpose Vehicle

Request

\$7.0 Million Equity \$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Leo J. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be 339 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE*), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-ead. Enron will Acilitate our exit from the transaction with a long-term holder by year-ead. Enron will \(\text{\text{AdM}}\) in the project. transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

	APPROPRIATIO	ON REQUEST APPROV	/ALS
Management Unit:	CICG	Project Name: Enron N	ligerian Barge Equity
		Financial Commitment:	\$7 million
SPONSOR:			
Originator:	Rob Furst	-	
Mgmt. Unit Controller:		_	
Mgmt. Unit Head:		_	
Group Finance Director.			
Group EVP:			
Other Reviews	A CONTRACTOR OF THE CONTRACTOR	Corporate Approvals	
Debt Markets Capital Committee:	Group/Date	Chief Financial Officer:	
Peer Project Review:	Date	Executive Committee:	
		Audit and Finance Committee:	· · · · · · · · · · · · · · · · · · ·
Date Approved:		Other:	

Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$ 7.00 Million
Acquisition Loan (from Enron to SPV) 21.00 Million
Total Purchase Price \$28.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secused by Purchaser's Interest in the Barge Project Only

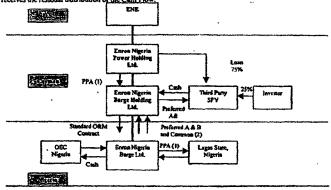
Shareholder Structure

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Economic Interest (Percent of Cash Flow ("CF")

Stock Class	Pre Trisser Date	Post Trieger Date
Preferred A (Purchaser)	0.1% of CF	0.1% of CF
Preferred B, (Enron)	9.9% of CF After Pref A	99.0% of CF After Pref A
Common Stock (Purchaser)	100.005 of CF After Pref A&B	100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



TIME LINE

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- (2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)

BARGE PROJECT ECONOMIC SUMMARY II.

Cost Summary (US \$000)

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Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
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 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Euron Corp. (\$865 million)

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Figure Communications)
- · The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were \$34 billion and its equity market capitalization was approximately \$32 billion. For the year ended December 31, 1998, Enron generated revenue of \$31,3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four vears.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azuria). Enron's regulated business includes two operations natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland Ceneral which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Euron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourting solutions to major comporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an \$850 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

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APPROPRIATION REQUEST COVER PAGE

Management Unit:

CICG

(\$ in Thousands) Project Name:

Enron Nigerian Barge

Group: Project Start / Finish:

Equity \$ 7 Million Financial Commitment:

Needs to Close by 12/31/99 --

Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P):

B-, B3

Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

NA

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Leò J. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE*), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will is illitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

Merrill Lynch				_
	APPROPRIATIO	N REQUEST APPR	OVALS	-
Management Unit:	cice	Project Name: Enn	on Nigerian I	Barge Equity
		Financial Commitment	: 1	7 million
SPONSOR:				
Originator:	Rob Furst			
	TOD F DIGE			
Mgmit, Unit Controller:				
Mgmt. Unit Head:				
Group Finance Director.				
Group EVP;	40-0-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1			
<u></u>				
Other Reviews		Corporate Approvals		
Debt Markets Capital				
Committee:	Group/Date	Chief Financial Officer:		
Peer Project Review:		Executive Committee:		
•	Date	A		
		Audit and Finance Committee:		
Date Approved:		Other:		

Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$ 7.00 Million
Acquisition Loan (from Enron to SPV) 21.00 Million
Total Purchase Price \$ 228.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

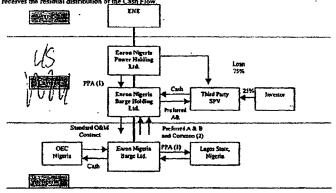
Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Euron will own the Preferred B Shares. The summary below indicates the economic interests before aird affer the Trigger Date. In each case, the table indicates the cosh Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class Pre Trigger Date Post Trigger Date Preferred A (Purchaser) 0.1% of CF 0.1% of CF Preferred B, (Euron) 9.9% of CF After Pref A 99.0% of CF After Pref A Common Stock (Purchaser) 100.005 of CF After Pref A&B 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



. TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeris Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)

BARGE PROJECT ECONOMIC SUMMARY II.

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1.500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9 123	\$13.362	· \$13.706	\$3.410	539 691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.1 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

Merrill Lynch's relationship with Erron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was

- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)
 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

2602

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Euron's financial advisor for private equity in its telecommunications subsidiary (Foron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rian. Once completed, the Company's long-haul fiber optic network will be the first intermet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's total assets were 514 billion and its equity market capitalization was approximately 512 billion. For the year ended December 31, 1998, Enron generated revenue of 531.3 billion, up 52% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

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APPROPRIATION REQUEST COVER PAGE

(\$ in Thousands)

Management Unit:

Project Name:

Enron Nigerian Barge

Group: Project Start / Finish:

Equity
Financial Commitment: 5 7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

EXECUTIVE SUMMARY

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Coursel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 plus 15% per annum or a flat 22.5%

ML Research Coverage:

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$39 million from the Nigerian government. Euron wants to sell the first 3 years of cash flow for \$22MM. They propose to do this by having ML establish a U.S. special purpose entity (the \$PET), owned by Mertill Lynch. The \$PE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then porchase non-voting common stock in the Enron subsidiary that owns the barges. Euron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of transaction with third party investors. Dan Bayly will have a conference call with senior management of Erron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

APPROPRIATIO	N REQUEST APPR	OVALS
CICG	Project Name: Enro	n Nigerian Barge Equity
	Financial Commitment	\$7 million
Rob Furst		
	Corporate Approvals	
Group/Date	Chief Financial Officer:	
Date	Executive Committee:	
	Audit and Finance Committee:	<u> </u>
	Other:	
	Rob Furst Group/Date	Corporate Approvals Chief Financial Officer: Group/Date Executive Committee: Date Audit and Finance Committee:

Appendix

I. PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$ 7.00 Million
Acquisition Loan (from Euron to SPV) 21.00 Million
Total Purchase Price \$ 23.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Euron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

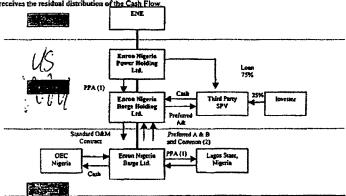
 Stock Class
 Pre Trigger Date
 Post Trigger Date

 Preferred A (Purchaser)
 0.1% of CF
 0.1% of CF

 Preferred B, (Enron)
 9.9% of CF After Pref A
 99.0% of CF After Pref A

 Common Stock (Purchaser)
 100.005 of CF After Pref A&B
 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



TIME LINE

- PPA is between Euron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Euron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Euron Nigeria Barge Ltd.
- (2) Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd.
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)

IL BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$0 123	\$17.362	\$13.706	53.410	C10 401

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

ENRON OVERVIEW III.

Merrill Lynch's relationship with Euron Corp. (the "Company" or "Enron") has developed significantly over the past year as Euron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was

- Lead managed Azuric's, Enron's international water utility subsidiary, IPO (\$700 million)
 - Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$365 million)

2607

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently putching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- . The Company is actively exploring power opportunities in continental Europe

Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and selter of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelities in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first Internet Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operatest water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enrons total assets were \$34 billion and its equity market capitalization was approximately \$32 billion. For the year ended December 31, 1998, Enron generated revenue of \$31.3 billion, up \$2% over the year ended December 11, 1997. The Company has grown its revenue and operating profit at an annualized rate of \$0% and 10% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azuric). Enron's regulated business includes two operations - natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Earon Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Earon's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long hall fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Earon Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an 5850 million publicly maded international water company (70% controlled by Euron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

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APPROPRIATION REQUEST COVER PAGE

Management Unit:

(5 in Thousands)
Project Name:

Enron Nigerian Barge

Group:

Equity
Financial Commitment: \$ 7 Million

Project Start / Finish:

Needs to Close by 12/31/99 -

Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity \$7.0 Million

B-, B3

Expected Ratings (Moody's/S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Euron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 plus 15% per amoum or a flat 22.5%

ML Research Coverage:

Leo J. Kelses

Jeff McMahon, EVP and Treasurer of Euron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Euron Corp. to book \$12MM of earnings. Euron must close this transaction by 12/31/99. Euron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Earon will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron substitions with at owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Manubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months. Enron confirming this commitment to guaranty the ML takeout within six months.

Earon has strongly requested ML to enter into this transaction. Enron has paid ML approximately 540 million in fees in 1999 and is expected to do so again in 2000.

Merrill Lynch			
		N REQUEST APPR	ROVALS
Management Unit:	CICG	Project Name: Enr	on Nigerian Barge Equity
		Financial Commitment	t: \$7 million
SPONSOR:			
Originator:	Rob Furst	-	
Mgmt. Unit Controller.		-	
Mgmt. Unit Head:			
Group Finance Director:		. ,	
Group EVP:			
Other Reviews		Corporate Approvals	
Debt Markets Capital Committee;	Group/Date	Chief Financial Officer:	
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	L.	Audit and Finance Committee:	<u> </u>
Date Approved:		Other:	

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Transaction Structure

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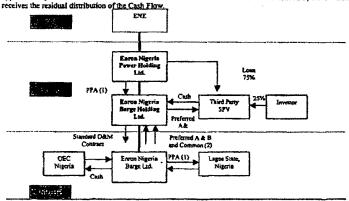
 Stock Class
 Pre Trigget Date
 Post Trigger Date

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 0.1% of CF
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BARGE PROJECT ECONOMIC SUMMARY H.

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Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gris Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an international water company (Azuris). Enron's regulated business includes two operations – natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Enron's federally regulated internate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General which should close in the next year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, ink management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Euron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth capacity on fiber systems. Azurix is an \$850 million publicly traded international water company (70% controlled by Enron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water and wastewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

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APPROPRIATION REQUEST COVER PAGE (5 in Thousands)

Management Unit:

CICG

Project Name:

Enron Nigerian Barge

Group

Financial Commitment:

Equity \$ 7 Million

Project Start / Finish:

Needs to Close by 12/31/99 -Takeout by 6/3C/C0

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

57.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's:S&P):

3-, 33

Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 lius 15% per annum or a flat 20.5%

ML Research Coverage:

Leo J. Kelser

Jeff McMahon, EVP and Trensurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be539 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE"), owned by Merrill Lynch. The SPE will be expitalized by our STMM investment and a \$21MM non-recourse loan from Earon Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron subsidiary that owns one barges. Enrou with nave a total investment of 540 MM in the project. Enron is in active negotiations with several equity investors, including Marubent. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

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	APPROPRIAT	ION REQUEST	APPROVA	LS	
Management Unit:	CICG	Project Name: Enrol		on Nigerian Barge Equity	
•		Financial Commi	itment:	\$7 million	
SPONSOR:					
Originator:	Ron Fursi	•			
Marnt Unit Controller	1794 7 4146				
mgista oma ourmonar.					
Mgmt. Unit Head:					
Group Finance Director.			·		
Group EVP:					

Other Reviews		Corporate Appro	ovais		
Debt Markets Capital Committee:		Chief Financial Off	icer.		
	Group/Cate		٠.		
Pser Project Review:	Date	Executive Commit			
		Audit and Finance Committee;			
Date Approved:		Other:		······································	

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution 5 7.00 Million
Acquisition Loan (from Enron to S2V) 21.00 Million
Total Purchase Price 523.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Erron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trugger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class

Pre Tringer Date

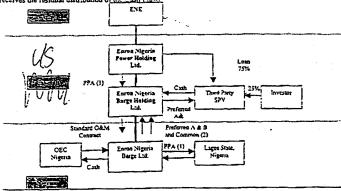
Post Trigger Date

Preferred A (Purchaser)
Preferred B, (Enron)
Common Stock (Purchaser)

0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B

0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&S

Before the Trigger Data, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Data, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Enron Nigeria Barge Ltd. (3)`
- BARGE PROJECT ECONOMIC SUMMARY TL.

Cost Summary (US 5000)

Power Barges	525,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,300
Mobilization	1,014
Development Costs	i.500
Working capital and Spares	2,119
Contingency	131
Total Costs	545,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
59 175	\$13.367	\$13.706	\$5.410	\$59.691

The \$45.6 million project costs are to be paid by Enron. The art cash flow projected over the three year Phase I project life is \$44.1 million, and 490% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

IIL ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (5700 million)
 - Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.

 Currently working on several buy side advisory assignments

 Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

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- Currently working with the CFO to raise a \$500 million private equity fund (LING)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications).
- The Company is actively exploring power opportunities in continental Europe

Company Overview

Earon is a global diversified energy company. Earon is the largest buyer and seller of natural gas and electricity in the world and owns 52,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe. Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first internation foreout backbone in the U.S. Additionally, through its international water company, Earon owns and/or operates water systems in the U.S. Europe. Canada, Mexico and Argentina. As of June 30, 1995, Earon's total assets were \$34 billion and its equity market empitalization was approximately \$32 billion. For the year ended December 31, 1998, Earon generated revenue of \$31,3 billion, up \$2% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1993, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four mergy-related operating subsidiaries (Enron North America, Enron Cas Pipelines, Enron Energy Services and Portland General) a telecommunications subsidiary (Enron Communications) and an informational water temptany (America, Enron's regulated business includes two operations instituted interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General (Enron recently announce the sale of Portland General which should close in the next year), in electric distribution, muscuission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Euron's largests business as measured by operating profit and provides commedity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

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APPROPRIATION REQUEST COVER PAGE (\$ in Thousands)

CICG

Aanagement Unit:

Enron Nigerian Barge

Group: Project Start / Finish:

Financial Commitment:

Equity \$ 7 Million

Needs to Close by 12/31/99 -

Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Facility:

Special Purpose Vehicle

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P):

Maturity:

B-, B3

Use of Proceeds:

Less than six months

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Euron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5%

ML Research Coverage:

Leo J. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be339 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the SPE*), owned by Merrill Lynch. The SPE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Euron will 3cilities our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Euron confirming this commitment to guaranty the ML takeout within six months.

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price \$ 7.00 Million 21.00 Million 528.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Euron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

Stock Class

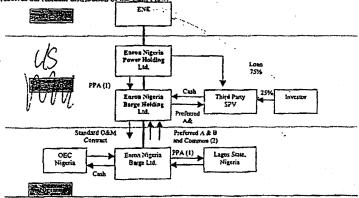
Pre Trigger Date

Post Trigger Date

Preferred A (Purchaser)
Preferred B, (Enron)
Common Stock (Purchaser)

0.1% of CF 9.9% of CF After Pref A 100.005 of CF After Pref A&B 0.1% of CF 99.0% of CF After Pref A 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Enron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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TIME LINE

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BARGE PROJECT ECONOMIC SUMMARY IL.

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,123	\$13,362	\$13,706	53,410	\$39,691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

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ENRON OVERVIEW

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 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments

 - Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

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- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications).
- · The Company is actively exploring power opportunities in continental Europe

Company Overview

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APPROPRIATION REQUEST COVER PAGE (S in Thousands)

CICG

Project Name:

Enron Nigerian Barge

Management Unit: Group: Project Start / Finish:

Financial Commitment: \$7 Million

Needs to Close by 12/31/99 -Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

57.0 Million Equity

Request

\$7.0 Million

Expected Ratings

(Moody's/S&P): Maturity:

Less than six months

3-, 33

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year and 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 its 15% per annum or a flat 12.5% return per annum.

ML Research Coverage:

Leo J. Keiser

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Merrill Lynch			- .		
APPROPRIATION REQUEST APPROVALS					
Management Unit:	CICG	Project Name: E	nron Nigerian Barge Equity		
		Financial Commitme	nt: S7 million		
SPONSOR:		,			
Originator	Rop Fursi	-			
Manual 4 to 74 Canada Hara	V001,815	•			
Mgmt Unit Controller		•			
Mgmt. Unit Head:		·			
Group Finance Director:		•			
Group EVP:	ways a second se				
Other Reviews		Corporate Approval	<u>s</u>		
Debt Markets Capital Committee:	Group/Date	Chief Financial Officer.			
Peer Project Raview:	Date	Executive Committee:			
		Audit and Finance Committee:			
Date Approved:		Other:	-		

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Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution Acquisition Loan (from Enron to SPV) Total Purchase Price

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Basis: 25% Internal Rate of Return on invested equity for Purchaser.

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Loan secured by Purchaser's interest in the Barge Project Only

Stareholder Structure

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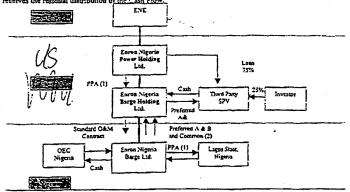
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Preferred A (Purchaser)
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TIME LINE

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Company Overview

Enron is a global diversified energy company. Earon is the largest buyer and seller of natural gas and electricity in the world and owns 52,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe. Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first internet Protocol backbone in the U.S. Additionally, through its international water company, Earon owns and/or operates water systems in the U.S., Europe, Canada, Mexico and Argentina. As of June 30, 1995, Earon's total assets were 334 billion and its equity market ampitalization was approximately \$32 billion. For the year ended December 31, 1998, Earon generated revenue of \$31.1 billion, up \$25% over the year ended December 31, 1997. The Company has grown its revenue and operating profit at an annualized rate of \$0% and \$0% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enton is organized as a holding company with four energy-related operating subsidiaries (Euron North America, Euron Gas Pipelines, Euron Energy Services and Portland General) a telecommunications subsidiary (Euron Communications) and an international water tempany (America, Euron's regulated business includes two operations natural gas pipelines, comprised of Euron Gas Pipelines, which owns and operates all of Euron's federally regulated internate natural gas pipelines, and Portland General (Euron recently announce the sale of Portland General which should close at the nearly year), an electric distribution, transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Euron North America, is currently Euron's largest business as measured by operating profit and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, risk management) to large industrial, commercial and utility customers in the U.S. and internationally. Euron's newest energy business is its retail energy services business, comprised of Euron Energy Services, which provides total energy outcourting solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment ustallation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Amrix, are positioned to take advantage of positive business fundamentals outside of Enroc's energy operations. Enron Communications is constructing an over 10,000 mile national optication services over an internet. Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth especity on fiber systems. Azurix is an \$850 million publicly traded international water company (70% controlled by Euron) which plans to take sevantage of the significant portunities that exist for private sector participation in the global water industry, unfinding acquiring existing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

To: Gary Dolan 3x3207
APPROPRIATION REQUEST COVER PAGE

(\$ in Thousands)
Project Name:

Management Unit: CICG

Enron Nigerian Barge

Group: Project Start / Finish:

Needs to Close by 12/31/99 --Takeout by 6/30/00

Financial Commitment: 5 7 Million

EXECUTIVE SUMMARY Endry:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Vincent & Elkins

Company Counsel: Underweiter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Lea I. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase S7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

Enron will have 3 barge mounted power plants in service by February 2000 in Nigeria. The first 3 years of cash flow is projected to be\$39 million from the Nigerian government. Enron wants to sell the first 3 years of cash flow for \$28MM. They propose to do this by having ML establish a U.S. special purpose entity (the \$5PT), owned by Merrill Lynch. The \$5PE will be capitalized by our \$7MM investment and a \$21MM non-recourse loan from Enron Corp which will then purchase non-voting common stock in the Enron subsidiary that owns the barges. Enron will have a total investment of \$46 MM in the project. Enron is in active negotiations with several equity investors, including Marubeni. However, they are not able to close the transaction with a long-term holder by year-end. Enron will facilitate our exit from the transaction with third party investors. Dan Bayly will have a conference call with senior management of Enron confirming this commitment to guaranty the ML takeout within six months. Enron confirming this commitment to guaranty the ML takeout within six months.

Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

MS 24612

5/178

DEC SS .88 B2: T26W WESKIFF FANCH BBLC

	APPROPRIATIO	N REQUEST A	PPROVAL	S
Management Unit:	CICG	Project Name:	Enron Nigeri	an Barge Equity
		Financial Committ	ment:	\$7 million
sponsor:				
Originator:		···		
	Rob Furst			
Mgmt. Unit Controller.		-		
Mgmt. Unit Head:		•		
Group Finance Director.				
		, <i>'</i>		
Group EVP:		- .		
Other Reviews		Corporate Appro	vals	
Debt Markets Capital		·		
Committee:	Group/Date	Chief Financial Offi	cer	
Peer Project Review:		Executive Committe	ee:	
Cor , roject retrem.	Date	•		
	,	Audit and Finance Committee:	4	
Date Approved:		Other:		

MS 24613

2.2.5

DEC SS . 69 B2: 125M WERRICH FLANCH BBEG

Appendix

L PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$ 7.00 Million
Acquisition Loan (from Enron to SPV) 21.00 Million
Total Purchase Price \$ 228.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Earon will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

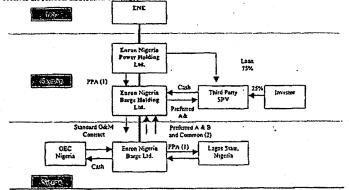
 Stock Class
 Pre Trigger Date
 Post Trigger Date

 Preferred A (Purchaser)
 0.1% of CF
 0.1% of CF

 Preferred B, (Euroa)
 9.9% of CF After Pref A
 99.0% of CF After Pref A

 Common Stock (Purchaser)
 100.005 of CF After Pref A&B
 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



MS 24614

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DEC SS. 369 NS: 12PM MERRILL LYNCH ABFG

TIME LINE

- PPA is between Euron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are essigned to Euron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Euron Nigeria Barge Ltd. (1)
- Enron Nigerian Barge Ltd. A&B Preferred and Common Shares are issued to Enron Barge Holding Ltd. (2)
- Preferred A Shares and Common are sold from Enron Nigeria Barge Holding Ltd. To a third party who assumes true equity risk involved with the Euron Nigeria Barge Ltd. (3)
- BARGE PROJECT ECONOMIC SUMMARY IL.

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1.014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
CQ 123	\$13.362	\$13.706	\$3.410	103.057

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

ENRON OVERVIEW

Merrill Lynch's relationship with Enron Corp. (the "Company" or "Enron") has developed significantly over the past year as Enron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Euron transactions in which Merrill was

- Lead managed Azurix's, Enron's international water utility subsidiary, IPO (\$700 million)
 Advised on subsequent \$235 million acquisition of AMX Acqua Management Inc.
 Currently working on several buy side advisory assignments

 - Currently working on several buy side advisory assignments
 Co-lead for \$500-750 million high yield issuance (currently on hold)
- . Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

MS 24615

5/7'd

DEC SS .88 B2:16PM MERRILL LYNCH ABFG

- Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Earon Communications)
- · The Company is actively exploring power opportunities in continental Europe

Company Overview

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To: Gary Dolan APPROPRIATION REQUEST COVER PAGE 3×3207

Management Unit:

CICG

(\$ in Thousands)
Project Name:

Enror Nigerian Barge

Group:

Project Start / Finish:

Needs to Close by 12/31/99 -Takeout by 6/30/00

Equity
Financial Commitment: 5 7 Million

EXECUTIVE SUMMARY Eatity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

\$7.0 Million

Expected Ratings (Moody's/S&P): Maturity:

B-, B3

Use of Proceeds:

Less than six months

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Proposed \$250,000 plus 15% per annum or a flat 22.5% return per annum.

ML Research Coverage:

Leo J. Kelser

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase \$7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

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Enron has strongly requested ML to enter into this transaction. Enron has paid ML approximately \$40 million in fees in 1999 and is expected to do so again in 2000.

S/11-8

DEC SS . 88 SS: 125W WESBIFF FANCH BBLE

Merrill Lynch					
APPROPRIATION REQUEST APPROVALS					
Management Unit:	CICG	Project Name: Enron Nigeria		in Barge Equity	
		Financial Commit	ment:	\$7 million	
SPONSOR:					
Originator:	Rob Furst				
÷ ,	ROD FUIST				
Mgmt. Unit Controller:		•			
Mgmt. Unit Head:	manager and a second se				
	<u>.</u>	*		4.	
Group Finance Director.		• .			
Group EVP:					
		•			
			•	10	
Other Reviews		Corporate Appro	vals		
Debt Markets Capital Committee:		Chief Financial Offi	cer:		
·	Group/Date				
Peer Project Review:	Date	Executive Committee	ee:		
		Audit and Finance Committee:	-		
Date Approved:		Other:		-	

Appendix

PROPOSED CORPORATE STRUCTURE

Transaction Structure

Purchase Equity Contribution \$ 7.00 Million
Acquisition Loan (from Enron to SPV) 21.00 Million
Total Purchase Price \$ 228.00 Million

Basis: 25% Internal Rate of Return on invested equity for Purchaser.

Acquisition Loan Terms: 12% Interest Rate, 24 Month Term, Amortization to be Agreed

Loan secured by Purchaser's interest in the Barge Project Only

Shareholder Structure

There will be three classes of stock two preferred and one common. The Purchaser will purchase the Preferred A Shares and the Common "Shares. Enron will own the Preferred B Shares. The summary below indicates the economic interests before and after the Trigger Date. In each case, the table indicates the Cash Flow rights of each shareholder class after the previous class shareholder has received their percentage share of the Cash Flow.

Economic Interest (Percent of Cash Flow ("CF")

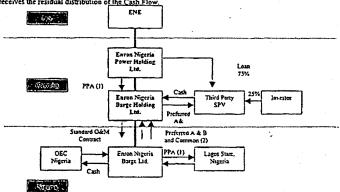
 Stock Class
 Pre Trigger Date
 Post Trigger Date

 Preferred A (Purchaser)
 0.1% of CF
 0.1% of CF

 Preferred B, (Enron)
 9.9% of CF After Pref A
 99.0% of CF After Pref A

 Common Stock (Purchaser)
 100.005 of CF After Pref A&B
 100.00% of CF After Pref A&B

Before the Trigger Date, the Purchaser is expected to receive approximately 90% of the Cash Flow via the Common Stock and a small percentage from the Preferred A. After the Trigger Date, the Euron Preferred B Shares receive approximately 99.0% of the Cash Flow and after distribution to the Preferred A and Preferred B, the Common receives the residual distribution of the Cash Flow.



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DEC SS . 33 02: IZEN WERRILL LYNCH GE'G

TIME LINE

- PPA is between Enron Nigeria Power Holding Ltd and the Lagos State of Nigeria. Subsequently, the rights to the PPA (barge activities only) are assigned to Enron Nigeria Barge Holding Ltd. Which in turn assigns the rights to Enron Nigeria Barge Ltd.
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- BARGE PROJECT ECONOMIC SUMMARY

Cost Summary (US \$000)

Power Barges	\$25,000
Barge Upgrades and Onshore Cost	15,800
Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency -	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US 5000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
EQ 123	\$13.367	\$13,706	53.410	\$39 KQ1

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

It is the intention of Enron to provide to the Investor monthly distributions of net cash flow, and to have an Enron affiliate provide up to 75% of seller financed debt. The proposed debt period is three years with an interest rate of 12% per year.

III. ENRON OVERVIEW

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- Co-lead for \$500-750 million high yield issuance (currently on hold)
- Co-managed a New Issue Common Equity offering for Enron Corp. (\$865 million)

S/7'd

DEC SS. 38 SR: TEEM WEBSITT FANCH BELC

- . Currently working with the CFO to raise a \$500 million private equity fund (LJM2)
- Currently pitching to become Enron's financial advisor for private equity in its telecommunications subsidiary (Enron Communications)
- The Company is actively exploring power opportunities in continental Europe

Company Overview

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DEC 23 '99 09:24 FR MERRILL LYNCH

212 449 9015 TO 92367584

P.02/06

APPROPRIATION REQUEST COVER PAGE

Management Unit:

CICG

(\$ in Thousands) Project Name:

Enron Nigerian Barge

Group:

IBK

Financial Commitment: \$7 Million

Project Start / Finish:

Needs to Close by 12/31/99 -

Takeout by 6/30/00

EXECUTIVE SUMMARY Entity:

Special Purpose Vehicle

Facility:

\$7.0 Million Equity

Request

57.0 Million

Expected Ratings

B-, B3

(Moody's/S&P): Maturity:

Less than six months

Use of Proceeds:

To purchase common and preferred equity in a Nigerian Barge Co., indirectly owned by Enron Corp.

Timing:

Closing by year end 1999.

Independent Auditors:

NA

Company Counsel:

Vincent & Elkins

Underwriter Counsel:

Fees:

Proposed \$250,000 plus 15% per annum or a flat 22.5%

return per annum.

ML Research Coverage:

Jeff McMahon, EVP and Treasurer of Enron Corp. has asked ML to purchase S7MM of equity in a special purpose vehicle that will allow Enron Corp. to book \$12MM of earnings. Enron must close this transaction by 12/31/99. Enron is viewing this transaction as a bridge to permanent equity and they have assured us that we will be taken out of our investment within six months. The investment would have a maximum 22.5% return.

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DEC 23 '99 09:24 FR MERRILL LYNCH

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Merrill Lynch							
APPROPRIATION REQUEST APPROVALS							
Management Unit:	cice	Project Name:	Enron Nigeriar	ian Barge Equity			
		Financial Commitm	ent:	\$7 million			
SPONSOR:							
Originator:	Rob Furst						
Mgmt. Unit Controller:		•					
Mgmt. Unit Head:		· · · · · · · · · · · · · · · · · · ·					
Group Finance Director:							
Group EVP:							
	,						
Other Reviews		Corporate Approva	uls				
Debt Markets Capital Committee:	Group/Date	Chief Financial Office	f;				
Peer Project Review:	Date .	Executive Committee					
	•	Audit and Finance Committee;	÷,				
Date Approved:		Other:					

DEC 23 '99 09:25 FR MERRILL LYNCH

212 449 9015 TO 92367584

P.05/06

TIME LINE

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BARGE PROJECT ECONOMIC SUMMARY II.

Cost Summary (US \$000)

Power Barges	\$25,000
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Total EPC	40,800
Mobilization	1,014
Development Costs	1,500
Working capital and Spares	2,119
Contingency .	181
Total Costs	\$45,614

Projection of 90% of Net Cash Flow (US \$000)

Year 2000	Year 2001	Year 2002	Year 2003	Total
\$9,123	\$13,362	\$13,706	\$3,410	\$39,691

The \$45.6 million project costs are to be paid by Enron. The net cash flow projected over the three year Phase I project life is \$44.1 million, and d90% of the three year cash flow is \$39.7 million.

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ENRON OVERVIEW Ш.

PARTICLE STREAM STREAMORSHIP WITH ERROR COFP. (the "Company" or "Enror") has developed significantly over the past year as Enron will generate more than \$40 million in investment banking fees in 1999. The following points identify current issues related to the Company and significant recent Enron transactions in which Merrill was involved.

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DEC 23 '99 89:25 FR MERRILL LYNCH

212 449 9015 TO 92367584

P.06/06

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Company Overview

Enron is a global diversified energy company. Enron is the largest buyer and seller of natural gas and electricity in the world and owns 32,000 miles of natural gas pipelines in the U.S. The Company also is one of the largest independent developers, operators and producers of electricity worldwide, with facilities in Europe, Asia, the Americas and the Pacific Rim. Once completed, the Company's long-haul fiber optic network will be the first laterate Protocol backbone in the U.S. Additionally, through its international water company, Enron owns and/or operates water systems in the U.S. Europe, Canada, Mexico and Argentina. As of June 30, 1999, Enron's contact assets were \$34 billion and its equity market capitalization was approximately \$32 billion. For the year ended December 31, 1991, Enron generated revenue of \$31.3 billion, up \$276 over the year ended December 31, 1995, in the Company has grown its revenue and operating profit at an annualized rate of 50% and 30% over the period from 1995 to 1998, respectively, and has been named the most innovative company in the world by Forbes for the past four years.

Enron is organized as a holding company with four energy-related operating subsidiaries (Enron North America, Enron Gas Pipelines, Enron Energy Services and Portland General) a relecommunications subsidiary (Enron Communications) and an international water company (Azurk). Enron's regulated business includes two operations – natural gas pipelines, comprised of Enron Gas Pipelines, which owns and operates all of Form's federally regulated interstate natural gas pipelines, and Portland General (Enron recently announce the sale of Portland General which should close in the next year), an electric distribution transmission and generation company serving the Oregon market. Wholesale energy services, comprised of Enron North America, is currently Enron's largest business as measured by operating profit, and provides commodity sales (natural gas, electricity, and other energy commodities) and services (asset management, tix management) to large industrial, commercial and utility customers in the U.S. and internationally. Enron's newest energy business is its retail energy services business, comprised of Enron Energy Services, which provides total energy outsourcing solutions to major corporations in the U.S. These solutions include infrastructure management packaged with new equipment installation and commodity purchases on behalf of the large corporate customers.

Enron's two newest businesses, Enron Communications and Azurix, are positioned to take advantage of positive business fundamentals outside of Enron's energy operations. Enron Communications is constructing an over 10,000 mile nationwide long haul fiber optic network that will offer broadband application services over an Internet Protocol network. Additionally, Enron Communications is pursuing an opportunity to create a market for the trading of bandwidth especity on fiber systems. Azurix is an \$850 million publicly traded international water company (70% controlled by Euron) which plans to take advantage of the significant opportunities that exist for private sector participation in the global water industry, including acquiring existing water autewater systems via privatizations, providing water and wastewater related services to municipal and industrial water markets and developing and managing water resources.

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